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**BEFORE THE ARIZONA CORPORATION COMMISSION**

Arizona Corporation Commission

COMMISSIONERS

**DOCKETED**

FEB 12 2021

DOCKETED BY

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IN THE MATTER OF:

DOCKET NO. S-21064A-18-0402

VERDUGO ENTERPRISE LLC, an Arizona limited liability company d/b/a VERDUGO GIFT COMPANY,

ISAIAS M. VERDUGO, a single man,

JAIME A. VERDUGO, a single man,

MARIA G. VERDUGO, a single woman,

MARIO C. VERDUGO, JR., a single man,

TEODORO M. MEDELLIN and SILVIA MEDELLIN, husband and wife, and

FILEMON G. CABALLERO, a married man,<sup>1</sup>

DECISION NO. 77902

Respondents.

**OPINION AND ORDER**

DATE OF HEARING: November 12 -15, 2019

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Mark Preny

APPEARANCES: Mr. David Degnan and Mr. Mark Horne, DEGNAN LAW GROUP, on behalf of Mr. Isaias Verdugo;

Ms. Maria Verdugo Magana, *pro per*;

Mr. Mario Verdugo, *pro per*;

Mr. Filemon Garcia Caballero, *pro per*, and;

Mr. Michael Shaw and Mr. Mitchell Allee, Staff Attorneys, Securities Division of the Arizona Corporation Commission.

<sup>1</sup> Respondent Jaime A. Verdugo did not request a hearing or file an answer in this proceeding, resulting in a default in the Commission's Order in Decision No. 77271, filed July 10, 2019. Respondents Teodoro M. Medellin and Silvia Medellin waived their right to a hearing and consented to the Commission's Order in Decision No. 77446, filed November 6, 2019.

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**1 BY THE COMMISSION:****2 Procedural History**

3 On December 17, 2018, the Securities Division (“Division”) of the Commission filed a Notice  
4 of Opportunity for Hearing Regarding Proposed Order to Cease and Desist, Order for Restitution, Order  
5 for Administrative Penalties and Order for Other Affirmative Action (“Notice”) against Verdugo  
6 Enterprise LLC doing business as Verdugo Gift Company (“VGC”), Isaias M. Verdugo, Jaime A.  
7 Verdugo, Maria G. Verdugo, Mario C. Verdugo, Jr., Teodoro M. Medellin and Silvia Medellin (the  
8 “Medellins”), and Filemon G. Caballero. The Division alleges that the Respondents engaged in acts,  
9 practices, and transactions that constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801  
10 et seq. (“Act”).

11 The spouse of Teodoro M. Medellin, Sylvia Medellin (“Respondent Spouse”), is joined in the  
12 action pursuant to A.R.S. § 44-2031(C) solely for the purpose of determining the liability of the marital  
13 community.

14 On December 28, 2018, Respondents Isaias M. Verdugo and Filemon G. Caballero each filed  
15 Requests for Hearing pursuant to A.R.S. § 44-1972 and Arizona Administrative Code (“A.A.C.”) R14-  
16 4-306).

17 On January 3, 2019, the Division filed six separate Affidavits of Service regarding service upon  
18 the Respondents.

19 On January 10, 2019, by Procedural Order, a pre-hearing conference was scheduled for  
20 February 7, 2019.

21 On January 18, 2019, the Medellins filed an Answer to Notice of Opportunity for Hearing  
22 Regarding Proposed Order to Cease and Desist, Order for Restitution, Order for Administrative  
23 Penalties, and Order for Other Affirmative Action.

24 On February 5, 2019, the Division filed an Affidavit of Service regarding Mario C. Verdugo,  
25 Jr.

26 On February 7, 2019, the pre-hearing conference was held as scheduled. The Division appeared  
27 through counsel. Respondents Isaias Verdugo and Filemon Caballero appeared pro per. Mr. Caballero  
28 was advised to contact the Commission’s ADA Coordinator if he required a Spanish interpreter at

1 future proceedings. Mr. Isaias Verdugo provided an updated mailing address. The parties discussed  
2 the setting of a hearing and other procedural deadlines.

3 On February 8, 2019, by Procedural Order, a hearing was set for November 12, 2019.

4 On May 7, 2019, the Division filed a Memorandum with a proposed Order to Cease and Desist,  
5 Order for Restitution, Order for Administrative Penalties, and Order for Other Affirmative Action  
6 against Jaime A. Verdugo, Maria G. Verdugo, and Mario C. Verdugo, Jr.

7 On May 20, 2019, Mario C. Verdugo, Jr. filed a request for a hearing.

8 On May 21, 2019, Maria G. Magana, also known as Maria G. Verdugo, filed a request for a  
9 hearing.

10 On May 28, 2019, a Procedural Order Regarding eFiling was docketed.

11 On June 11, 2019, a Procedural Order was issued affirming the hearing schedule in this matter  
12 to begin on November 12, 2019.

13 On June 26, 2019, the Division filed a Memorandum with a proposed Order to Cease and Desist,  
14 Order for Restitution, Order for Administrative Penalties, and Order for Other Affirmative Action  
15 against Jaime A. Verdugo.

16 On July 10, 2019, the Commission issued Decision No. 77271, Order to Cease and Desist,  
17 Order for Restitution, Order for Administrative Penalties, and Order for Other Affirmative Action  
18 against Jaime A. Verdugo ("Jaime Verdugo Order").

19 On October 16, 2019, Saldivar & Associates, PLLC, filed a Notice of Appearance on behalf of  
20 Respondent Isaias M. Verdugo.

21 On October 22, 2019, the Division filed a Memorandum with a proposed Order to Cease and  
22 Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same by Respondents  
23 Teodoro M. Medellin and Silvia Medellin.

24 On October 29, 2019, the Division filed a request for a Spanish interpreter for investors'  
25 testimony.

26 On November 6, 2019, the Commission issued Decision No. 77446, Order to Cease and Desist,  
27 Order for Restitution, Order for Administrative Penalties and Consent to Same by Respondents  
28 Teodoro M. Medellin and Silvia Medellin ("Medellin Consent Order").



1 On November 8, 2019, Saldivar & Associates, PLLC, filed a Notice of Withdrawal of Counsel  
2 for Isaias M. Verdugo.

3 On November 8, 2019, the Division filed a Response to the Notice of Withdrawal of Counsel  
4 for Isaias M. Verdugo, stating that the Division did not object to the withdrawal.

5 On November 12, 2019, a full public hearing commenced before a duly authorized  
6 Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. The Division was  
7 represented by counsel. Respondents Mario Verdugo, Maria Verdugo, Isaias Verdugo and Filemon  
8 Caballero appeared on their own behalf. No appearance was made by Respondent VGC. Additional  
9 days of hearing were held on November 13, 14, and 15, 2019. At the conclusion of the hearing, a  
10 schedule for the filing of post-hearing briefs was established whereby the Division would file an initial  
11 brief by March 6, 2020, the Respondents would file response briefs by May 8, 2020, and the Division  
12 would file a reply brief by June 12, 2020.

13 On March 6, 2020, the Division filed its Post-Hearing Brief ("Division Post-Hearing Brief").

14 On May 8, 2020, Degnan Law Group filed a Notice of Appearance on behalf of Respondent  
15 Isaias M. Verdugo.

16 Also on May 8, 2020, Isaias M. Verdugo filed a Motion to Extend Deadline for Respondent  
17 Isaias M. Verdugo to File Post-Hearing Response Brief.

18 On May 8, 2020, by Procedural Order, Respondent Isaias M. Verdugo's Motion to Extend  
19 Deadline to File Post-Hearing Brief was granted.

20 Also on May 8, 2020, Filemon Caballero filed a Motion to Extend Deadline to File Post-  
21 Hearing Response Brief. Respondent Filemon Caballero requested a 20-day extension. Filemon  
22 Caballero stated that the purpose of his request was not for delay and that the Division did not object  
23 to an extension.

24 On May 8, 2020, Maria G. Verdugo filed a Response to Post-Hearing Brief.

25 On May 8, 2020, Mario C. Verdugo filed an Answer to Post-Hearing Brief

26 On May 11, 2020, by Procedural Order, Respondent Filemon Caballero's Motion to Extend  
27 Deadline to File Post-Hearing Response Brief was granted.

28 On May 29, 2020, Respondent Filemon Caballero filed a Response to Post-Hearing Brief.

1 On June 1, 2020, Respondent Isaias M. Verdugo filed his Post-Hearing Brief ("Isaias Verdugo  
2 Post-Hearing Brief").

3 On the same day, Respondent Isaias M. Verdugo filed a Notice of Errata.

4 On June 11, 2020, the Division filed its Post-Hearing Reply Brief regarding Respondents Maria  
5 G. Verdugo, Mario C. Verdugo Jr., and Filemon Caballero ("Division Reply Re: Maria Verdugo, Mario  
6 Verdugo and Filemon Caballero").

7 On July 6, 2020, the Division filed its Post-Hearing Reply Brief regarding Respondent Isaias  
8 Verdugo ("Division Reply Re: Isaias Verdugo").

9 \* \* \* \* \*

## 10 DISCUSSION

### 11 I. Brief Summary

12 This is an enforcement action brought against the Respondents for allegedly having made,  
13 participated in or induced offers and sales of securities in violation of the Arizona Securities Act. The  
14 Division alleges that the Respondents offered or sold unregistered securities in the form of notes or  
15 investment contracts ("VGC Notes"), while not registered as dealers or salesmen, in violation of A.R.S.  
16 §§ 44-1841 and 44-1842. VGC was in the business of purchasing home décor products that it resold  
17 online on Amazon.com ("Amazon") and elsewhere for a profit. VGC sold VGC Notes to investors to  
18 raise funds primarily to purchase more inventory for resale. The Division alleges 755 VGC Notes were  
19 sold between August 2014 and at least January 2017. The Division alleges registration violations  
20 against VGC and Isaias Verdugo arising from each of these 755 sales of VGC Notes, with fewer  
21 violations based on the number of sales made, participated in or induced by Mario Verdugo (33), Maria  
22 Verdugo (10), and Mr. Caballero (30).

23 The Division further alleges fraud, in violation of A.R.S. § 44-1991(A), against the Respondents  
24 arising from: misrepresentations of the use of investment funds; misrepresentations resulting from the  
25 nonpayment of investors whose VGC Notes came due on or before October 22, 2016; failure to disclose  
26 a \$6,000 limitation imposed on some investment returns; and failure to disclose that prior investors  
27 received neither their promised interest nor the return of their principal. By number, the Division  
28 alleges 755 fraud violations each against VGC and Isaias Verdugo, with lesser totals against Mario

Verdugo (32), Maria Verdugo (19), and Mr. Caballero (17). The Division further alleges that Isaias Verdugo was a control person of VGC.

The Division requests that VGC and Isaias Verdugo be ordered to pay restitution, jointly and severally, in the amount of \$6,178,398.38. The Division requests lesser amounts of restitution be ordered against Mario Verdugo (\$264,660), Maria Verdugo (\$121,900), and Mr. Caballero (\$227,185.77). The Division also requests that the Respondents be ordered to pay administrative penalties of varying amounts.

Isaias Verdugo contends that the VGC Notes were loans, not investment contracts, and therefore not securities. Isaias Verdugo argues that he was not a control person for VGC and should not be subject to control person liability. Isaias Verdugo challenges the evidence supporting the Division's restitution request. Respondents Mario Verdugo, Maria Verdugo, and Mr. Caballero challenge certain factual assertions made by the Division.

## **II. Testimony**

### **Jose Nelson Torres - Investor**

Mr. Torres testified that he has been a resident of Phoenix, Arizona since 1985.<sup>2</sup> Mr. Torres testified that he has a doctorate in theology and has been employed as a pastor since 1987, full-time since 2000.<sup>3</sup> Mr. Torres testified that prior to becoming a pastor he drove City of Phoenix buses for over nine years and, prior to that, he drove tractor trailers.<sup>4</sup> Mr. Torres testified that he had never invested in anything prior to VGC.<sup>5</sup>

Mr. Torres testified that he learned of VGC in early 2016 from other pastors, primarily Mr. Medellin who said he had been "blessed financially" by investing in VGC.<sup>6</sup> Mr. Torres testified that Mr. Medellin talked about VGC at a meeting of 30-40 pastors in September 2016, where Mr. Medellin said that he was making 15-20% interest from his VGC investment which paid for his vacation and was helping to build his churches.<sup>7</sup> Mr. Torres testified that Mr. Medellin claimed to know the owners

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<sup>2</sup> Tr. at 73.

<sup>3</sup> Tr. at 73-74.

<sup>4</sup> Tr. at 74.

<sup>5</sup> Tr. at 79.

<sup>6</sup> Tr. at 74-75, 108.

<sup>7</sup> Tr. at 75-78, 109-110.

1 of VGC, the Verdugo brothers, ever since they were little children attending Mr. Medellin's church.<sup>8</sup>  
 2 Mr. Torres testified that Mr. Medellin gave out VGC business cards which identified Isaias Verdugo  
 3 as general manager of VGC.<sup>9</sup> Mr. Torres testified that neither Mr. Medellin nor anyone else at VGC  
 4 ever disclosed that Mr. Medellin received commissions from VGC.<sup>10</sup> Mr. Torres testified that had he  
 5 known Mr. Medellin was receiving commissions, it would have affected Mr. Torres' decision to invest  
 6 in VGC.<sup>11</sup>

7 Mr. Torres testified that he first went to VGC's office on October 7, 2016.<sup>12</sup> Mr. Torres testified  
 8 that he saw people waiting in line, so he went to the bank, got a cashier's check for \$5,000 and returned  
 9 to VGC.<sup>13</sup> Mr. Torres testified that he gave Isaias Verdugo the \$5,000 check.<sup>14</sup> Mr. Torres testified  
 10 that Isaias Verdugo asked for Mr. Torres' social security number and made a copy of Mr. Torres'  
 11 driver's license before presenting him with a three-month contract for his \$5,000 investment that would  
 12 pay out \$8,640 on January 7, 2017.<sup>15</sup> Mr. Torres testified that Isaias Verdugo told him that the  
 13 investment was a sure thing and that "you will never lose your money with us."<sup>16</sup> Mr. Torres testified  
 14 that he was not told that he would be limited in being able to withdraw his money after three months  
 15 or that VGC was having difficulty repaying its investors.<sup>17</sup> Mr. Torres testified that he would not have  
 16 invested in VGC had he known that VGC was having difficulty repaying investors.<sup>18</sup>

17 Mr. Torres testified that he returned to VGC a few days later with a cashier's check for \$7,000  
 18 to invest.<sup>19</sup> Mr. Torres testified that he received another three-month contract for this investment which  
 19 indicated that he would be paid \$12,096 on January 11, 2017.<sup>20</sup> Mr. Torres testified that he was not  
 20 told that he would be limited in being able to withdraw his money after three months or that VGC was  
 21

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22 <sup>8</sup> Tr. at 78, 80, 113.

23 <sup>9</sup> Tr. at 81; Exh. S-68 at ACC025593.

24 <sup>10</sup> Tr. at 79, 105, 115.

25 <sup>11</sup> Tr. at 79.

26 <sup>12</sup> Tr. at 81.

27 <sup>13</sup> Tr. at 82-83.

28 <sup>14</sup> Tr. at 83; Exh. S-68 at ACC019054.

<sup>15</sup> Tr. at 83-85; Exh. S-68 at ACC019050.

<sup>16</sup> Tr. at 85, 108-109, 111.

<sup>17</sup> Tr. at 87-88.

<sup>18</sup> Tr. at 88.

<sup>19</sup> Tr. at 89, 92; Exh. S-68 at ACC025594.

<sup>20</sup> Tr. at 90-91; Exh. S-68 at ACC025595.

1 having difficulty repaying its investors, which, if disclosed, would have prevented him from  
2 investing.<sup>21</sup>

3 Mr. Torres testified that he returned to VGC about a day before his first contract was going to  
4 expire to withdraw some money, but instead rolled over his \$5,000 investment because Jaime Verdugo  
5 from VGC told him that VGC was out of checks.<sup>22</sup> Mr. Torres testified that no one told him there  
6 would be any limits on how much money he could withdraw after three months.<sup>23</sup> Mr. Torres testified  
7 that it would have affected his decision to invest if he had been told there would be withdrawal limits.<sup>24</sup>  
8 Mr. Torres testified that no one told him VGC was having difficulty repaying some of its investors.<sup>25</sup>  
9 Mr. Torres testified that it would have affected his decision to invest if he had been told that VGC was  
10 having difficulty repaying investors.<sup>26</sup>

11 Mr. Torres testified that Jaime Verdugo gave him a telephone number to call to renew his  
12 \$7,000 investment.<sup>27</sup> Mr. Torres testified that he rolled over his \$7,000 investment by phone the day  
13 before it matured.<sup>28</sup> Mr. Torres testified that during his phone call with Jaime Verdugo, he was not  
14 told that VGC was having difficulty repaying some of its investors or that there would be any limits on  
15 his withdrawing his money.<sup>29</sup>

16 Mr. Torres testified that about two or three weeks after rolling over his \$7,000 investment, he  
17 received a text message from Mr. Medellin saying that VGC “went broke.”<sup>30</sup> Mr. Torres testified that  
18 the next morning he went to VGC’s office and found it closed.<sup>31</sup> Mr. Torres testified that he never  
19 heard from VGC about repayment and that he has not received any money back from his investments.<sup>32</sup>

20 Mr. Torres testified that the \$12,000 he invested was the majority of his life savings that he  
21 planned to use to pay for his son’s college education.<sup>33</sup> Mr. Torres testified that no one at VGC ever

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22 <sup>21</sup> Tr. at 91.

23 <sup>22</sup> Tr. at 93-96; Exh. S-68 at ACC019053.

24 <sup>23</sup> Tr. at 97.

25 <sup>24</sup> Tr. at 97.

26 <sup>25</sup> Tr. at 97.

27 <sup>26</sup> Tr. at 97-98.

28 <sup>27</sup> Tr. at 98.

29 <sup>28</sup> Tr. at 99; Exh. S-68 at ACC019055.

30 <sup>29</sup> Tr. at 101.

31 <sup>30</sup> Tr. at 102-103.

32 <sup>31</sup> Tr. at 103.

33 <sup>32</sup> Tr. at 104-106.

<sup>33</sup> Tr. at 79-80, 96-97.

asked him about his prior investing experience or his net worth.<sup>34</sup> Mr. Torres testified that at the time of his investment in VGC, he had a net worth under one million dollars and an annual income, combined with that of his wife, totaling less than \$300,000.<sup>35</sup>

Raul Ruiz - Investor

Mr. Ruiz testified that he is an Arizona resident who has been a pastor of a church for over 15 years.<sup>36</sup> Mr. Ruiz testified that he has a technical degree and that he has occasionally done construction work up until four years ago.<sup>37</sup>

Mr. Ruiz testified that he has known Mr. Medellin since 2003.<sup>38</sup> Mr. Ruiz testified that he first learned about VGC from Mr. Medellin who told him about an investment opportunity with VGC while at a meeting of about 15 pastors approximately in November 2016.<sup>39</sup> Mr. Ruiz testified that Mr. Medellin said VGC bought bulk merchandise to sell on Amazon and similar companies and that VGC was paying 20% interest in three months to investors.<sup>40</sup> Mr. Ruiz testified that Mr. Medellin said Isaias Verdugo ran VGC and that Isaias Verdugo grew up in another pastor's church.<sup>41</sup> Mr. Ruiz testified that Mr. Medellin said that he and other investors made money investing in VGC.<sup>42</sup> Mr. Ruiz testified that Isaias Verdugo's and Mr. Medellin's church involvement instilled trust in him.<sup>43</sup>

Mr. Ruiz testified that Mr. Medellin suggested Mr. Ruiz invest \$3,000 in VGC.<sup>44</sup> Mr. Ruiz testified that Mr. Medellin said VGC would use the investment funds to purchase shipping containers from Africa and Malaysia.<sup>45</sup> Mr. Ruiz testified that on November 14, 2016, he and his wife, Maria, brought a \$3,000 cashier's check to VGC's office where they met Mr. Medellin and they saw other pastors and church members making investments.<sup>46</sup> Mr. Ruiz testified that his wife gave the \$3,000

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<sup>34</sup> Tr. at 85-86.

<sup>35</sup> Tr. at 86-87.

<sup>36</sup> Tr. at 119-121.

<sup>37</sup> Tr. at 120-122.

<sup>38</sup> Tr. at 122.

<sup>39</sup> Tr. at 122-123.

<sup>40</sup> Tr. at 123-124.

<sup>41</sup> Tr. at 124.

<sup>42</sup> Tr. at 125-126.

<sup>43</sup> Tr. at 124-125.

<sup>44</sup> Tr. at 127-128.

<sup>45</sup> Tr. at 134.

<sup>46</sup> Tr. at 127-129, 131; Exh. S-50 at ACC010302.



1 check to Jaime Verdugo in exchange for a contract.<sup>47</sup> Mr. Ruiz testified that neither he nor his wife  
 2 could read the contract, which was in English, and nobody from VGC explained its terms.<sup>48</sup> Mr. Ruiz  
 3 testified that he did not ask any questions about the investment because he trusted Mr. Medellin.<sup>49</sup> Mr.  
 4 Ruiz testified that he understood the \$3,000 investment would mature on February 14, 2017, to pay  
 5 \$4,562.63.<sup>50</sup> Mr. Ruiz testified that he understood that he would be able to withdraw his entire  
 6 investment when it matured.<sup>51</sup>

7 Mr. Ruiz testified that nobody from VGC disclosed to him that earlier VGC investors had not  
 8 received money that was due or that Mr. Medellin was making commissions for bringing in investors  
 9 and would receive a part of Mr. Ruiz's investment as a commission.<sup>52</sup> Mr. Ruiz testified that he would  
 10 not have invested in VGC had he known investors had not been paid or that Mr. Medellin was receiving  
 11 commissions.<sup>53</sup>

12 Mr. Ruiz testified that he was not asked by anyone from VGC on November 14, 2016, about  
 13 his financial status or investment history.<sup>54</sup> Mr. Ruiz testified that as of November 2016, he had a net  
 14 worth under one million dollars and an annual income, combined with that of his wife, totaling less  
 15 than \$300,000.<sup>55</sup>

16 Mr. Ruiz testified that he received a phone call from Mr. Medellin in December 2016 that VGC  
 17 was offering a special whereby one could get 20% interest in two weeks.<sup>56</sup> Mr. Ruiz testified that he  
 18 had no intention of investing again in VGC until Mr. Medellin told him about this special.<sup>57</sup> Mr. Ruiz  
 19 testified that he and his wife borrowed \$3,000 to make a second investment.<sup>58</sup> Mr. Ruiz testified that  
 20 his wife gave the \$3,000 cashier's check to a young woman at VGC for their second investment on  
 21 December 23, 2016.<sup>59</sup> Mr. Ruiz testified that he and his wife were given a second contract and told

22 <sup>47</sup> Tr. at 132-133; Exh. S-50 at ACC010300.

23 <sup>48</sup> Tr. at 133.

24 <sup>49</sup> Tr. at 134.

25 <sup>50</sup> Tr. at 135; Exh. S-50 at ACC010300.

26 <sup>51</sup> Tr. at 140-141.

27 <sup>52</sup> Tr. at 137.

28 <sup>53</sup> Tr. at 138.

<sup>54</sup> Tr. at 136-137.

<sup>55</sup> Tr. at 137.

<sup>56</sup> Tr. at 141-142.

<sup>57</sup> Tr. at 143-144.

<sup>58</sup> Tr. at 144.

<sup>59</sup> Tr. at 148; S-50 at ACC025610.

1 they could come back in two weeks and they would receive \$3,600.<sup>60</sup> Mr. Ruiz testified that neither  
 2 Mr. Medellin nor anyone at VGC disclosed to him that earlier VGC investors had been owed money  
 3 that was not paid back.<sup>61</sup> Mr. Ruiz testified that he would not have made a second investment if he had  
 4 been told about the unpaid earlier investors.<sup>62</sup> Mr. Ruiz testified that no one disclosed to him that VGC  
 5 paid commissions to Mr. Medellin and others.<sup>63</sup> Mr. Ruiz testified that on December 23, 2016, no one  
 6 from VGC asked about his financial status or investment history.<sup>64</sup>

7 Mr. Ruiz testified that he and his wife returned to VGC's office on January 5, 2017, to withdraw  
 8 their money.<sup>65</sup> Mr. Ruiz testified that his wife, whose name was on the contract, was taken back to  
 9 Isaias Verdugo's office where she was told that VGC had not received checks in the mail.<sup>66</sup> Mr. Ruiz  
 10 testified that VGC forced them to roll over their contract with a new date, chosen by VGC, of January  
 11 19, 2017, to pay \$4,320.<sup>67</sup> Mr. Ruiz testified that the signature on the new contract, supposedly his  
 12 wife's, did not look like her signature.<sup>68</sup> Mr. Ruiz testified that other investors at VGC's office that  
 13 day were upset they were not being paid back.<sup>69</sup>

14 Mr. Ruiz testified that he and his wife went back to VGC's office on or about January 19, 2017,  
 15 intending to withdraw their money.<sup>70</sup> Mr. Ruiz testified that, once again, his wife was told by Isaias  
 16 Verdugo that the checks had not arrived.<sup>71</sup> Mr. Ruiz testified that, once again, there were other  
 17 investors at VGC's office who were upset they were not being paid back.<sup>72</sup> Mr. Ruiz testified that his  
 18 wife was instructed to initial the VGC Note and come back to be paid.<sup>73</sup> Mr. Ruiz testified that at the  
 19 time his wife initialed, the Note had not been stamped "Paid."<sup>74</sup>

21 \_\_\_\_\_  
 22 <sup>60</sup> Tr. at 148-149; Exh. S-50 at ACC010297.

23 <sup>61</sup> Tr. at 149.

24 <sup>62</sup> Tr. at 149.

25 <sup>63</sup> Tr. at 150.

26 <sup>64</sup> Tr. at 149.

27 <sup>65</sup> Tr. at 150, 152.

28 <sup>66</sup> Tr. at 151.

<sup>67</sup> Tr. at 153-154; S-50 at ACC010298.

<sup>68</sup> Tr. at 154, 164-165.

<sup>69</sup> Tr. at 158.

<sup>70</sup> Tr. at 156.

<sup>71</sup> Tr. at 156-157.

<sup>72</sup> Tr. at 159.

<sup>73</sup> Tr. at 161-162; Exh. S-50 at ACC010299.

<sup>74</sup> Tr. at 162; Exh. S-50 at ACC010299.

1 Mr. Ruiz testified that they were instructed to call Maria Verdugo on January 20, 2017, which  
 2 they did, but Maria Verdugo did not answer her phone.<sup>75</sup> Mr. Ruiz testified that he and his wife then  
 3 went to VGC's office midday, but it was closed.<sup>76</sup> Mr. Ruiz testified that a number of angry VGC  
 4 investors were outside VGC's closed office.<sup>77</sup> Mr. Ruiz testified that VGC never reopened its office.<sup>78</sup>  
 5 Mr. Ruiz testified that he had no advanced warning that VGC's office would be closing its doors to the  
 6 public.<sup>79</sup>

7 Mr. Ruiz testified that he had heard from Mr. Medellin that Mr. Caballero worked for VGC.<sup>80</sup>  
 8 Mr. Ruiz testified that after VGC had closed its office, he texted Mr. Caballero to see if he could do  
 9 something to help Mr. Ruiz.<sup>81</sup> Mr. Ruiz testified that Mr. Caballero never responded to the text  
 10 message.<sup>82</sup>

11 Mr. Ruiz testified that he never received any money back from the \$6,000 he invested in VGC.<sup>83</sup>  
 12 Mr. Ruiz testified that no one from VGC ever discussed with him or his wife any risk associated with  
 13 the VGC investments.<sup>84</sup>

14 Maria Ruiz - Investor

15 Mrs. Ruiz testified that she has been an Arizona resident since 2015.<sup>85</sup> Mrs. Ruiz testified that  
 16 she has been employed since 2016 as a hotel housekeeper and that she has an eighth-grade education.<sup>86</sup>

17 Mrs. Ruiz testified that she heard about VGC from her husband after Mr. Medellin told him  
 18 that VGC was paying 20% interest on investments.<sup>87</sup> Mrs. Ruiz testified that she has been a member  
 19 of a church for 23 years and that Mr. Medellin's role as a pastor made his mentioning the investment  
 20 more trustworthy.<sup>88</sup> Mrs. Ruiz testified that she agreed with her husband to withdraw money from the  
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22 <sup>75</sup> Tr. at 162-163.

23 <sup>76</sup> Tr. at 163, 166-167.

24 <sup>77</sup> Tr. at 167-168.

25 <sup>78</sup> Tr. at 174.

26 <sup>79</sup> Tr. at 168.

27 <sup>80</sup> Tr. at 147, 172.

28 <sup>81</sup> Tr. at 172.

<sup>82</sup> Tr. at 172-173.

<sup>83</sup> Tr. at 174-175.

<sup>84</sup> Tr. at 175.

<sup>85</sup> Tr. at 184.

<sup>86</sup> Tr. at 184-185.

<sup>87</sup> Tr. at 185-186.

<sup>88</sup> Tr. at 186-187.

1 bank to invest in VGC.<sup>89</sup> Mrs. Ruiz testified that the \$3,000 they withdrew was a significant amount  
2 of money to her and her husband that they had saved over six or seven months for an emergency.<sup>90</sup>

3 Mrs. Ruiz testified that when she brought her \$3,000 cashier's check to VGC, she filled out a  
4 form given to her by Maria Verdugo, writing her name and social security number, but she was not  
5 asked about her financial status or investment history.<sup>91</sup> Mrs. Ruiz testified that she does not read  
6 English and no one translated or explained the VGC contract to her.<sup>92</sup> Mrs. Ruiz testified that she  
7 expected to get a return on her investment on or about February 14, 2017.<sup>93</sup>

8 Mrs. Ruiz testified that in December 2016, Mr. Medellin called her husband and informed him  
9 that VGC was having a special sale for two-week investment periods.<sup>94</sup> Mrs. Ruiz testified that her  
10 husband borrowed money for them to make a second \$3,000 investment on December 23, 2016.<sup>95</sup> Mrs.  
11 Ruiz testified that she understood the contract for the second investment promised to pay \$3,600 on  
12 January 5, 2017.<sup>96</sup>

13 Mrs. Ruiz testified that she and her husband returned to VGC's office on or about January 5,  
14 2017, to pick up their earnings only to be told that VGC's checks had not arrived and to return another  
15 time.<sup>97</sup> Mrs. Ruiz testified that she did not recall whom she spoke with on January 5, 2017, but she did  
16 recall a conversation with Isaias Verdugo where he said VGC was out of checks.<sup>98</sup> Mrs. Ruiz testified  
17 that she returned to VGC's office on or about January 19, 2017.<sup>99</sup> Mrs. Ruiz testified that she was  
18 instructed to initial the VGC contract, but it had not been stamped "paid" at the time and she was not  
19 given any money.<sup>100</sup> Mrs. Ruiz testified that she returned to VGC the following day but the office was  
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23 <sup>89</sup> Tr. at 186.

24 <sup>90</sup> Tr. at 188.

25 <sup>91</sup> Tr. at 188-189, 200, 203-204.

26 <sup>92</sup> Tr. at 189.

27 <sup>93</sup> Tr. at 189.

28 <sup>94</sup> Tr. at 189-190.

<sup>95</sup> Tr. at 190.

<sup>96</sup> Tr. at 192.

<sup>97</sup> Tr. at 192-194.

<sup>98</sup> Tr. at 197-198.

<sup>99</sup> Tr. at 195.

<sup>100</sup> Tr. at 195-196; Exh. S-50 at ACC010299.

1 closed.<sup>101</sup> Mrs. Ruiz testified that she had no further contact with anyone from VGC and she never  
 2 received any money back from the two investments in VGC.<sup>102</sup>

3 Mrs. Ruiz testified that she understood her principal was guaranteed and that no one from VGC  
 4 discussed with her any risk associated with the investment.<sup>103</sup> Mrs. Ruiz testified that she was never  
 5 told by Mr. Medellin or anyone at VGC that prior investors had not been paid back, which, had she  
 6 been told, would have prevented her from investing in VGC.<sup>104</sup> Mrs. Ruiz testified that she was never  
 7 told by Mr. Medellin or anyone at VGC that Mr. Medellin was being paid commissions for bringing in  
 8 investors, which had she been told, would have prevented her from investing in VGC.<sup>105</sup> Mrs. Ruiz  
 9 testified that her investment in VGC was the first time she had ever invested in anything.<sup>106</sup>

10 Elmer Misael Barrios Ramirez - Investor

11 Mr. Barrios testified that he has been an Arizona resident since at least 2015, employed as a  
 12 construction subcontractor and a pastor at an Arizona church for twelve years.<sup>107</sup> Mr. Barrios testified  
 13 that he completed high school and has taken some courses in construction at a private school.<sup>108</sup>

14 Mr. Barrios testified that he first learned about VGC from Mr. Medellin who mentioned it at an  
 15 Arizona meeting of 25-35 pastors in approximately April 2016.<sup>109</sup> Mr. Barrios testified that Mr.  
 16 Medellin said he invested in VGC and that he and about ten other pastors were making money from  
 17 investments in VGC.<sup>110</sup> Mr. Barrios testified that he found Mr. Medellin credible because Mr. Medellin  
 18 was a friend whom he had known for fifteen years, because Mr. Medellin was a pastor, and because he  
 19 knew the other pastors who were making money on the investment.<sup>111</sup> Mr. Barrios testified that Mr.  
 20 Medellin gave out the contact number and address for VGC and Mr. Medellin stated that he wanted to  
 21 be present at the pastors' first meetings at VGC.<sup>112</sup> Mr. Barrios testified that he thought Mr. Medellin

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 23 <sup>101</sup> Tr. at 196.

24 <sup>102</sup> Tr. at 196-197.

25 <sup>103</sup> Tr. at 197.

26 <sup>104</sup> Tr. at 190-191.

27 <sup>105</sup> Tr. at 191.

28 <sup>106</sup> Tr. at 203.

<sup>107</sup> Tr. at 217-218.

<sup>108</sup> Tr. at 217.

<sup>109</sup> Tr. at 218-221.

<sup>110</sup> Tr. at 220-222.

<sup>111</sup> Tr. at 221-222.

<sup>112</sup> Tr. at 223.

1 told the pastors about VGC as a favor because Mr. Medellin knew the pastors had needs for their  
2 churches.<sup>113</sup>

3 Mr. Barrios testified that he met with Mr. Medellin again about two weeks later at the house of  
4 another pastor, where Mr. Medellin showed them photos of the church in Texas that Mr. Medellin was  
5 constructing from his VGC profits, and photos of checks paid to other investors.<sup>114</sup> Mr. Barrios testified  
6 that Mr. Medellin described VGC as selling products on Amazon and that VGC was paying investors  
7 15-20% after three months.<sup>115</sup> Mr. Barrios testified that Mr. Medellin said VGC used investor money  
8 to purchase products from China to resell.<sup>116</sup> Mr. Barrios testified that Mr. Medellin said that Mr.  
9 Medellin knew the owners of VGC; Isaias, Mario, Maria, and Jaime Verdugo; since they were children  
10 at Mr. Medellin's church.<sup>117</sup> Mr. Barrios testified that it was important to him that the Verdugoes had  
11 a Christian upbringing.<sup>118</sup>

12 Mr. Barrios testified that he met again with Mr. Medellin on June 29, 2016, at VGC's offices,  
13 where Mr. Barrios saw other investors and he decided to invest \$2,000 in VGC.<sup>119</sup> Mr. Barrios testified  
14 that at VGC he was helped by Mr. Caballero, which gave him more confidence in the investment  
15 because Mr. Caballero was also a pastor and Mr. Caballero was wearing a City of Phoenix shirt.<sup>120</sup> Mr.  
16 Barrios testified that he cannot read English but Mr. Caballero described the investment contract in  
17 Spanish and said that there was an insurance policy on the investment, there was no risk, and Mr.  
18 Barrios was 100% guaranteed to get his money back.<sup>121</sup> Mr. Barrios testified that Mr. Caballero told  
19 him that the investments were being used only to purchase inventory for VGC to sell online.<sup>122</sup> Mr.  
20 Barrios testified that Mr. Caballero took his check and took the VGC Note to Isaias Verdugo to be  
21 signed.<sup>123</sup> Mr. Barrios testified that no one at VGC asked him about his investment history or financial  
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23 <sup>113</sup> Tr. at 230.

24 <sup>114</sup> Tr. at 224-225, 229, 288.

25 <sup>115</sup> Tr. at 225-226.

26 <sup>116</sup> Tr. at 226.

27 <sup>117</sup> Tr. at 227.

28 <sup>118</sup> Tr. at 228.

<sup>119</sup> Tr. at 231-234.

<sup>120</sup> Tr. at 234-235, 288.

<sup>121</sup> Tr. at 236, 238-239, 286-288.

<sup>122</sup> Tr. at 237, 265.

<sup>123</sup> Tr. at 239-240; Exh. S-52 at ACC010368.



1 status.<sup>124</sup> Mr. Barrios testified that at the time of his investment, he had a net worth under one million  
 2 dollars and an annual income, combined with that of his wife, totaling less than \$300,000.<sup>125</sup> Mr.  
 3 Barrios testified that this was the first time he made an investment of this type.<sup>126</sup> Mr. Barrios testified  
 4 that he understood his VGC Note would be payable on September 29, 2016.<sup>127</sup>

5 Mr. Barrios testified that on or about September 29, 2016, he received a check from Jaime  
 6 Verdugo in the full amount owed to him under the VGC Note.<sup>128</sup> Mr. Barrios testified that he was  
 7 pleased with the return on his investment and mentioned it to his daughter, Cefora.<sup>129</sup> Mr. Barrios  
 8 testified that after his first investment payed out, he wanted to invest again to make money to buy a  
 9 building for his church and help his daughter with schooling.<sup>130</sup> Mr. Barrios testified that VGC and  
 10 Mr. Medellin urged him to invest again, identifying other pastors who had large sums of money  
 11 invested in VGC.<sup>131</sup>

12 Mr. Barrios testified that he sold a house in November 2016 for \$168,000, of which he gave  
 13 \$20,000 to his daughter, Cefora, for college.<sup>132</sup> Mr. Barrios testified that he met with Jaime Verdugo  
 14 who told him that he could get a 20% return on an investment over \$20,000.<sup>133</sup> Mr. Barrios testified  
 15 that his daughter met with Mario Verdugo about the VGC investment and he told her that VGC would  
 16 use her money to buy inventory to sell online.<sup>134</sup>

17 Mr. Barrios testified that he went to VGC's office on November 7, 2016, to make a second  
 18 investment.<sup>135</sup> Mr. Barrios testified that Mario Verdugo explained to him that he would make 20% on  
 19 his \$70,000 investment in three months, that there was no risk and that the investment was insured.<sup>136</sup>  
 20 Mr. Barrios testified that he gave his check to Jaime Verdugo who gave him a VGC Note, supposedly  
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22 <sup>124</sup> Tr. at 242-243.

23 <sup>125</sup> Tr. at 244.

24 <sup>126</sup> Tr. at 244.

25 <sup>127</sup> Tr. at 245.

26 <sup>128</sup> Tr. at 245; Exh. S-52 at ACC004911.

27 <sup>129</sup> Tr. at 246-247.

28 <sup>130</sup> Tr. at 248-249.

<sup>131</sup> Tr. at 249-251.

<sup>132</sup> Tr. at 251-252.

<sup>133</sup> Tr. at 255.

<sup>134</sup> Tr. at 257.

<sup>135</sup> Tr. at 259.

<sup>136</sup> Tr. at 259-263, 267, 289-290.

1 signed by Isaias Verdugo although the signature looked different from the previous VGC Note,  
2 promising to pay \$120,960 on February 7, 2017.<sup>137</sup>

3 Mr. Barrios testified that after making his \$70,000 investment, he received a call that same day  
4 from VGC saying that VGC's interest rates would be dropping after Christmas, but he could get 20%  
5 again before then.<sup>138</sup> Mr. Barrios testified that the next day he received a call from Mr. Medellin urging  
6 him to take advantage of the opportunity to get 20%.<sup>139</sup> Mr. Barrios testified that the phone calls  
7 induced him to invest more money.<sup>140</sup> Mr. Barrios testified that he made two more investments,  
8 \$22,000 and \$7,100 on November 9, 2016.<sup>141</sup> Mr. Barrios testified that Jaime Verdugo told him on  
9 November 9, 2016, that when the new VGC Notes were due, he could take out the full amount or  
10 reinvest the capital.<sup>142</sup>

11 Mr. Barrios testified that no one told him that earlier investors had not been paid money that  
12 was due, and that he would not have invested if this information was disclosed.<sup>143</sup> Mr. Barrios testified  
13 that no one told him there would be a \$6,000 limit on how much money he could get back and that he  
14 might not have invested if this information was disclosed.<sup>144</sup> Mr. Barrios testified that before he  
15 invested he did not know Mr. Medellin was receiving a commission and that he might not have invested  
16 if this information was disclosed.<sup>145</sup>

17 Mr. Barrios testified that he received a call from Mr. Medellin in January 2017 and that Mr.  
18 Medellin told him that some inventory from China had not been delivered because VGC did not use  
19 investor funds to pay for the inventory.<sup>146</sup> Mr. Barrios testified that the next day VGC's office was  
20 closed and he was directed to Isaias Verdugo's attorney's office where approximately 200 investors  
21 gathered outside because they were owed money from VGC.<sup>147</sup> Mr. Barrios testified that none of the  
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23 <sup>137</sup> Tr. at 266-268; Exh. S-52 at ACC010369.

24 <sup>138</sup> Tr. at 268-270.

25 <sup>139</sup> Tr. at 270.

26 <sup>140</sup> Tr. at 271.

27 <sup>141</sup> Tr. at 269, 271; Exh. S-52 at ACC010373-ACC010374.

28 <sup>142</sup> Tr. at 273-276.

<sup>143</sup> Tr. at 263-264, 276.

<sup>144</sup> Tr. at 276-277.

<sup>145</sup> Tr. at 264-265.

<sup>146</sup> Tr. at 277-279.

<sup>147</sup> Tr. at 279-280, 290-291.

investors were paid at the attorney's offices and that he never received any money back from his November 2017 investments.<sup>148</sup>

Cefora Yamileth Barrios De La Cruz - Investor

Ms. Barrios testified that she has lived in Phoenix, Arizona, for almost 17 years.<sup>149</sup> Ms. Barrios testified that she invested in VGC on November 7, 2016.<sup>150</sup> Ms. Barrios testified that she was an eighteen year old senior in high school at the time of her investment.<sup>151</sup>

Ms. Barrios testified that she first heard about VGC from her father, Mr. Barrios, who said that he and other pastors received high interest rates investing in VGC, which sold products through Amazon.<sup>152</sup> Ms. Barrios testified that she saw her father's first VGC Note and she had noticed the principal guarantee it contained.<sup>153</sup> Ms. Barrios testified that her father told her he learned about the investment from Mr. Medellin, whom she knew to be a close pastor friend of her father's.<sup>154</sup> Ms. Barrios testified that, at the time, she was not aware Mr. Medellin was receiving commissions from VGC.<sup>155</sup>

Ms. Barrios testified that she had no prior investment experience, but she was interested in investing in VGC because she wanted the high interest rate to pay for college tuition at Arizona State University.<sup>156</sup> Ms. Barrios testified that she had \$20,000 to invest which her father gave her after he had sold a home in approximately October 2016.<sup>157</sup> Ms. Barrios testified that she researched VGC on the internet and saw that they sold merchandise on Amazon.<sup>158</sup> Ms. Barrios testified that she called VGC and scheduled an appointment to meet with Mario Verdugo.<sup>159</sup> Ms. Barrios testified that she brought a \$20,000 cashier's check to her appointment on November 7, 2016, at VGC's offices in Phoenix, Arizona.<sup>160</sup> Ms. Barrios testified that Mario Verdugo went over the VGC Note with her and

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<sup>148</sup> Tr. at 281, 291.

<sup>149</sup> Tr. at 293.

<sup>150</sup> Tr. at 293.

<sup>151</sup> Tr. at 293, 297.

<sup>152</sup> Tr. at 294-295.

<sup>153</sup> Tr. at 295, 317.

<sup>154</sup> Tr. at 296-297.

<sup>155</sup> Tr. at 297.

<sup>156</sup> Tr. at 297-298.

<sup>157</sup> Tr. at 300.

<sup>158</sup> Tr. at 300-301.

<sup>159</sup> Tr. at 302-303.

<sup>160</sup> Tr. at 303, 310; Exh. S-32 at ACC008820.

1 that Isaias Verdugo signed it.<sup>161</sup> Ms. Barrios testified that Mario Verdugo explained that VGC used  
 2 the investment money to purchase things, that she would receive her principal and 20% interest in three  
 3 months, and that her principal was guaranteed.<sup>162</sup> Ms. Barrios testified that neither Mario Verdugo nor  
 4 Isaias Verdugo asked her about her net worth.<sup>163</sup> Mr. Barrios testified that at the time of her investment,  
 5 she was unmarried, had a net worth under one million dollars and an annual income totaling less than  
 6 \$300,000.<sup>164</sup>

7 Ms. Barrios testified that she was not told about any limitation on withdrawing her investment  
 8 moneys.<sup>165</sup> Ms. Barrios testified that if she had been told she would have been limited to withdrawing  
 9 \$6,000 every other week after her VGC Note matured, she would not have invested because such a  
 10 limit would be suspicious.<sup>166</sup> Ms. Barrios testified that no one told her that VGC had been unable to  
 11 pay prior investors, which was information that would have affected her decision to invest.<sup>167</sup>

12 Ms. Barrios testified that VGC did not pay her when her VGC Note came due on February 7,  
 13 2017.<sup>168</sup> Ms. Barrios testified that she went with her father to VGC's attorney's offices where the doors  
 14 were closed, but there was a basket of forms for VGC investors to fill out with personal information to  
 15 slip through the door.<sup>169</sup> Ms. Barrios testified that she was unable to reach anyone from VGC by phone  
 16 after that and she never received any money back from VGC.<sup>170</sup> Ms. Barrios testified that the loss of  
 17 her \$20,000 meant that she had to get a two-year degree from Glendale Community College rather than  
 18 attend Arizona State University.<sup>171</sup>

19 Maria Isabel Esparza - Investor

20 Ms. Esparza testified that she has a high school education and, since at least 2015, has been an  
 21 Arizona resident employed through a temporary agency doing work in a factory.<sup>172</sup> Ms. Esparza  
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23 <sup>161</sup> Tr. at 305-310; Exh. S-32 at ACC008818.

24 <sup>162</sup> Tr. at 307-309.

25 <sup>163</sup> Tr. at 310.

26 <sup>164</sup> Tr. at 310.

27 <sup>165</sup> Tr. at 310-311.

28 <sup>166</sup> Tr. at 311.

<sup>167</sup> Tr. at 311-312, 316.

<sup>168</sup> Tr. at 313.

<sup>169</sup> Tr. at 314.

<sup>170</sup> Tr. at 315.

<sup>171</sup> Tr. at 315-316.

<sup>172</sup> Tr. at 320.

1 testified that she first heard about VGC through a friend and later, in June 2016, from a VGC investor,  
 2 Adan Fernandez, who told her that VGC paid 10-20% interest.<sup>173</sup> Ms. Esparza testified that Mr.  
 3 Fernandez gave her a card for VGC with a contact number for Isaias Verdugo.<sup>174</sup> Ms. Esparza testified  
 4 that she decided to invest all of her savings, \$30,000, in VGC.<sup>175</sup> Ms. Esparza testified that she had  
 5 never made an investment prior to investing in VGC.<sup>176</sup>

6 Ms. Esparza testified that she called Isaias Verdugo, who explained that VGC used investor  
 7 money only to purchase inventory to sell on Amazon.<sup>177</sup> Ms. Esparza testified that Isaias Verdugo told  
 8 her that her principal would be safe, which gave her confidence in the investment.<sup>178</sup> Ms. Esparza  
 9 testified that she then met Isaias Verdugo at VGC's office where Isaias Verdugo gave her a sample  
 10 VGC Note in English and Spanish and instructed her to return on a later date with a cashier's check  
 11 and speak with Mr. Caballero to make her investment.<sup>179</sup> Ms. Esparza testified that she relied on the  
 12 principal guarantee written on the VGC Note.<sup>180</sup> Ms. Esparza testified that she returned with her check  
 13 on June 28, 2016, where she met with Mr. Caballero, who told her that VGC was successful and  
 14 planned to open another office in Mesa, Arizona, and that her investment would be 100% safe.<sup>181</sup> Ms.  
 15 Esparza testified that no one at VGC told her about any risk associated with the investment.<sup>182</sup> Ms.  
 16 Esparza testified that she gave her \$30,000 check to Mr. Caballero who gave her a VGC Note to pay  
 17 \$51,840 when it matured on September 28, 2016.<sup>183</sup>

18 Ms. Esparza testified that she intended to take out \$30,000 and reinvest the interest when her  
 19 VGC Note matured.<sup>184</sup> Ms. Esparza testified that Mario Verdugo told her over the phone that if she  
 20 withdrew the \$30,000, her interest rate would drop to 10%.<sup>185</sup> Ms. Esparza testified that, based on this  
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22 <sup>173</sup> Tr. at 320-322.

23 <sup>174</sup> Tr. at 321-322; Exh. S-40 at ACC025611.

24 <sup>175</sup> Tr. at 323-324.

25 <sup>176</sup> Tr. at 327.

26 <sup>177</sup> Tr. at 324-326.

27 <sup>178</sup> Tr. at 326-327.

28 <sup>179</sup> Tr. at 329-332; Exh. S-40 at ACC025558, ACC025612.

<sup>180</sup> Tr. at 355-356; Exh. S-40 at ACC025558, ACC025612.

<sup>181</sup> Tr. at 332-335.

<sup>182</sup> Tr. at 336-337.

<sup>183</sup> Tr. at 335-336; Exh. S-40 at ACC009800, ACC009802.

<sup>184</sup> Tr. at 337-338.

<sup>185</sup> Tr. at 337-338.

1 information, she rolled over her investment at 20% interest for three months.<sup>186</sup> Ms. Esparza testified  
 2 that Mario Verdugo helped her roll over the investment, to pay approximately \$89,000 on or about  
 3 December 28, 2016.<sup>187</sup> Ms. Esparza testified that she signed the VGC Note and was told a copy would  
 4 be mailed to her, but she never received it.<sup>188</sup> Ms. Esparza testified that no one told her that there was  
 5 a \$6,000 limit on withdrawals and, had that information been disclosed, she would not have agreed to  
 6 roll over her investment.<sup>189</sup>

7 Ms. Esparza testified that she spoke with Mr. Caballero on or about December 28, 2016, stating  
 8 that she was in Mexico until January, to which Mr. Caballero said she could roll over her investment  
 9 when she got back.<sup>190</sup> Ms. Esparza testified that on January 5, 2017, she intended to withdraw at least  
 10 \$40,000, but Maria Verdugo told her that her interest rate would drop if she took out that much money,  
 11 leading Ms. Esparza to take out only \$2,000 and roll over the rest.<sup>191</sup> Ms. Esparza testified that she  
 12 signed a new VGC Note to pay her \$154,700 on or about March 28, 2017, but she never received a  
 13 copy of the VGC Note.<sup>192</sup> Ms. Esparza testified that no one told her that VGC was having issues paying  
 14 back earlier investors and, had that information been disclosed, she would have taken all of her money  
 15 out on January 5, 2017.<sup>193</sup>

16 Ms. Esparza testified that a couple weeks after investing on January 5, 2017, Mario Verdugo  
 17 told her over the phone that VGC was in bankruptcy and Mr. Caballero told her that VGC had closed  
 18 its office.<sup>194</sup> Ms. Esparza testified that she never received any more money from VGC after the \$2,000  
 19 check on January 5, 2017.<sup>195</sup>

20 Patricia Elizabeth Bonilla - Investor

21 Ms. Bonilla testified that she has been an Arizona resident since at least 2015, employed in  
 22 various office and warehouse positions over the last ten years.<sup>196</sup> Ms. Bonilla testified that she attended

23 <sup>186</sup> Tr. at 338-340.

24 <sup>187</sup> Tr. at 340-341.

<sup>188</sup> Tr. at 341.

25 <sup>189</sup> Tr. at 347.

<sup>190</sup> Tr. at 341-342.

26 <sup>191</sup> Tr. at 342-344; Exh. S-40 at ACC009803.

<sup>192</sup> Tr. at 345-346.

27 <sup>193</sup> Tr. at 346-347.

<sup>194</sup> Tr. at 348-349.

<sup>195</sup> Tr. at 352.

28 <sup>196</sup> Tr. at 358.



1 the twelfth grade, but she did not graduate high school.<sup>197</sup> Ms. Bonilla testified that she first heard  
 2 about VGC in June 2016, from her boyfriend at the time, Jose Luis Omero, whom she later married.<sup>198</sup>  
 3 Ms. Bonilla testified that Mr. Omero wanted to invest in VGC in her name.<sup>199</sup> Ms. Bonilla testified  
 4 that she made an investment of \$20,000 of her own money, from a deceased husband's life insurance  
 5 policy, and an investment for Mr. Omero.<sup>200</sup>

6 Ms. Bonilla testified that on July 20, 2016, she met with Jaime Verdugo at VGC's office.<sup>201</sup>  
 7 Ms. Bonilla testified that Jaime Verdugo told her that VGC was using investor money to pay for  
 8 warehouses and products to sell online.<sup>202</sup> Ms. Bonilla testified that Jaime Verdugo told her the  
 9 investment in VGC would pay 20% interest for three months and was insured by FDIC, and he pointed  
 10 to an FDIC plaque in the office.<sup>203</sup> Ms. Bonilla testified that seeing the FDIC sign and Jaime Verdugo  
 11 telling her that VGC had a million dollar insurance policy on investments gave her confidence in  
 12 investing.<sup>204</sup> Ms. Bonilla testified that she gave her \$20,000 check to Jaime Verdugo and that she  
 13 received a VGC Note signed by Mario Verdugo.<sup>205</sup> Ms. Bonilla testified that she did not receive a copy  
 14 of the VGC Note.<sup>206</sup>

15 Ms. Bonilla testified that on or about October 20, 2016, she went back to VGC's office where  
 16 she rolled over her initial investment for another three months, to pay out \$51,840 on January 20, 2017,  
 17 and she made a new investment of \$5,000, to pay out \$8,640 on January 20, 2017.<sup>207</sup> Ms. Bonilla  
 18 testified that she also rolled over a \$20,000 investment, by her husband but in her name, on October  
 19 20, 2016, to pay out \$35,740.56 on January 20, 2017.<sup>208</sup> Ms. Bonilla testified that no one told her that  
 20 there would be a \$6,000 limit on withdrawals and, had that information been disclosed, she would not  
 21 have agreed to roll over her investment or invest an additional \$5,000.<sup>209</sup>

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<sup>197</sup> Tr. at 358.

<sup>198</sup> Tr. at 358-359.

<sup>199</sup> Tr. at 361-362.

<sup>200</sup> Tr. at 362-363.

<sup>201</sup> Tr. at 363-364.

<sup>202</sup> Tr. at 364.

<sup>203</sup> Tr. at 365-366, 368, 388, 390-391.

<sup>204</sup> Tr. at 391.

<sup>205</sup> Tr. at 366-368.

<sup>206</sup> Tr. at 369.

<sup>207</sup> Tr. at 369-373; Exh. S-84 at ACC025599, ACC025600, ACC025608.

<sup>208</sup> Tr. at 373-374; Exh. S-84 at ACC025601.

<sup>209</sup> Tr. at 384.

1 Ms. Bonilla testified that she returned to VGC's office in January 2017 to withdraw \$15,000  
 2 from her investment, but she was told by Maria Verdugo that VGC did not have sufficient funds to pay  
 3 her the full amount.<sup>210</sup> Ms. Bonilla testified that she received \$5,000 and was forced to roll over the  
 4 remainder of her investment funds.<sup>211</sup> Ms. Bonilla testified that she was to receive 5% interest on this  
 5 rolled over VGC Note to mature on February 3, 2017.<sup>212</sup> Ms. Bonilla testified that her other invested  
 6 funds were rolled over to pay \$47,147.13 on a maturity date of April 20, 2017, and her husband's  
 7 invested funds were rolled over to pay \$53,119.69 on a maturity date of April 20, 2017.<sup>213</sup> Ms. Bonilla  
 8 testified that Maria Verdugo went over these VGC Notes with her and said her investments were safe.<sup>214</sup>  
 9 Ms. Bonilla testified that no one told her that VGC was having issues paying back earlier investors and,  
 10 had that information been disclosed, she would not have rolled over her investments.<sup>215</sup>

11 Ms. Bonilla testified that on or about February 3, 2017, the VGC office was closed and a sign  
 12 directed persons with questions to call a phone number written thereon.<sup>216</sup> Ms. Bonilla testified that  
 13 she called the phone number and went to VGC's attorney's office.<sup>217</sup> Ms. Bonilla testified that she  
 14 never received any additional money on her or her husband's investments after the \$5,000 she received  
 15 in January 2017.<sup>218</sup>

16 Ms. Bonilla testified that at the time of her investments, she had a net worth of less than  
 17 \$1,000,000 and an annual income under \$200,000.<sup>219</sup> Ms. Bonilla testified that no one at VGC asked  
 18 her about her finances or her annual income before she invested.<sup>220</sup>

19 Wilbert Ortiz Garcia - Investor

20 Mr. Ortiz testified that he has been an Arizona resident since at least 2015, that he works  
 21 primarily in construction, and that he attended but did not complete middle school.<sup>221</sup>

22  
 23 <sup>210</sup> Tr. at 375-377.

24 <sup>211</sup> Tr. at 377-378.

25 <sup>212</sup> Tr. at 377-378; Exh. S-84 at ACC025603.

26 <sup>213</sup> Tr. at 379-381; Exh. S-84 at ACC025604, ACC025605.

27 <sup>214</sup> Tr. at 379, 381-382, 386.

28 <sup>215</sup> Tr. at 382.

<sup>216</sup> Tr. at 385, 389.

<sup>217</sup> Tr. at 386.

<sup>218</sup> Tr. at 386-387.

<sup>219</sup> Tr. at 392.

<sup>220</sup> Tr. at 392.

<sup>221</sup> Tr. at 406-407.

1 Mr. Ortiz testified that he first heard about VGC from a church friend who said he was making  
 2 money on an investment with VGC.<sup>222</sup> Mr. Ortiz testified that his brother-in-law, Cesar Bencomo, also  
 3 invested in VGC and the two investors described VGC as selling products online and being owned by  
 4 Isaias Verdugo.<sup>223</sup> Mr. Ortiz testified that Mr. Bencomo showed him checks received from his VGC  
 5 investment.<sup>224</sup> Mr. Ortiz testified that he decided to invest in VGC and sold a truck for \$11,000 for  
 6 investment funds.<sup>225</sup> Mr. Ortiz testified that he had no prior investment experience.<sup>226</sup> Mr. Ortiz  
 7 testified that as of 2016, he had a net worth under \$1,000,000, and his combined annual income with  
 8 his wife was less than \$300,000.<sup>227</sup>

9 Mr. Ortiz testified that his brother-in-law took him to VGC's office on February 4, 2016, where  
 10 he met Jaime Verdugo.<sup>228</sup> Mr. Ortiz testified that Jaime Verdugo instructed him to return with a  
 11 cashier's check, which Mr. Ortiz obtained in the amount of \$10,000.<sup>229</sup> Mr. Ortiz testified that he  
 12 already understood VGC made money from online sales and he knew his brother-in-law was making  
 13 money with the investment, so he did not have questions for Jaime Verdugo about it.<sup>230</sup> Mr. Ortiz  
 14 testified that he filled out a VGC form, titled "Short Term Investor Data," asking his name, address and  
 15 phone number.<sup>231</sup> Mr. Ortiz testified that he gave the cashier's check to Jaime Verdugo.<sup>232</sup> Mr. Ortiz  
 16 testified that his VGC Note was to pay \$15,208.75 when due on May 4, 2016.<sup>233</sup> Mr. Ortiz testified  
 17 that he believed he was guaranteed to get his principal back, pursuant to the terms of the VGC Note.<sup>234</sup>  
 18 Mr. Ortiz testified that no one at VGC asked him about his financial status or investment history and  
 19 no one discussed with him any risk associated with the investment.<sup>235</sup>

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22 <sup>222</sup> Tr. at 408-409.

23 <sup>223</sup> Tr. at 410-411.

24 <sup>224</sup> Tr. at 412.

25 <sup>225</sup> Tr. at 414-415.

26 <sup>226</sup> Tr. at 421.

27 <sup>227</sup> Tr. at 407.

28 <sup>228</sup> Tr. at 416-417.

<sup>229</sup> Tr. at 417-448; Exh. S-48 at ACC010196.

<sup>230</sup> Tr. at 419-420.

<sup>231</sup> Tr. at 426-427; Exh. S-48 at ACC010210.

<sup>232</sup> Tr. at 421.

<sup>233</sup> Tr. at 423; Exh. S-48 at ACC010192.

<sup>234</sup> Tr. at 423-424; Exh. S-48 at ACC010192.

<sup>235</sup> Tr. at 421-422.

1 Mr. Ortiz testified that he decided to invest more money in March 2016, and he sold another  
 2 car for funds.<sup>236</sup> Mr. Ortiz testified that he made a second investment in the amount of \$6,000 on March  
 3 24, 2016.<sup>237</sup> Mr. Ortiz testified that he spoke with Isaias Verdugo and Jaime Verdugo when he made  
 4 his second investment and that he gave Jaime Verdugo his check.<sup>238</sup> Mr. Ortiz testified that he  
 5 understood VGC would pay \$9,125.25 on his second investment on June 24, 2016, that his investment  
 6 money would be used for VGC to buy inventory to sell online, from which a portion of the profits  
 7 would pay on his VGC Note.<sup>239</sup> Mr. Ortiz testified that, once again, no one at VGC asked him about  
 8 his financial status or investment history.<sup>240</sup>

9 Mr. Ortiz testified that he went to VGC's office on May 4, 2016, to roll over his first  
 10 investment.<sup>241</sup> Mr. Ortiz testified that he rolled over \$15,000 to pay out \$22,813.13 on August 4,  
 11 2016.<sup>242</sup> Mr. Ortiz testified that no one from VGC discussed any risk associated with rolling over his  
 12 investment, nor did anyone ask about his financial status or investment history.<sup>243</sup>

13 Mr. Ortiz testified that he returned to VGC's office on June 24, 2016, where he rolled over  
 14 \$8,000 from his second investment and received a check from VGC in the amount of \$1,125.25.<sup>244</sup> Mr.  
 15 Ortiz testified that he understood VGC promised to pay \$12,167 on September 24, 2016, on this VGC  
 16 Note and that his principal was guaranteed.<sup>245</sup>

17 Mr. Ortiz testified that on August 4, 2016, he rolled over his original investment again, to be  
 18 paid \$34,695.92 on November 4, 2016.<sup>246</sup>

19 Mr. Ortiz testified that at some point he noticed Mr. Caballero working at VGC, which gave  
 20 him confidence in the investment as he knew Mr. Caballero as a church leader.<sup>247</sup>

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23 <sup>236</sup> Tr. at 427.

24 <sup>237</sup> Tr. at 427-429; Tr. at 423; Exh. S-48 at ACC010201, ACC000891.

25 <sup>238</sup> Tr. at 429-430.

26 <sup>239</sup> Tr. at 410.

27 <sup>240</sup> Tr. at 431.

28 <sup>241</sup> Tr. at 431.

<sup>242</sup> Tr. at 434; Exh. S-48 at ACC010193.

<sup>243</sup> Tr. at 435.

<sup>244</sup> Tr. at 435-439; Exh. S-48 at ACC010202, ACC010207.

<sup>245</sup> Tr. at 439; Exh. S-48 at ACC010202.

<sup>246</sup> Tr. at 440-441; Exh. S-48 at ACC010194.

<sup>247</sup> Tr. at 413-414, 441-442.

1 Mr. Ortiz testified that on September 24, 2016, he rolled over his second investment again, to  
 2 be paid \$18,250.50 on December 24, 2016.<sup>248</sup> Mr. Ortiz testified that he still understood his principal  
 3 to be guaranteed.<sup>249</sup> Mr. Ortiz testified that he did not recall anyone from VGC telling him that there  
 4 would be a \$6,000 limit on withdrawals.<sup>250</sup>

5 Mr. Ortiz testified that on November 4, 2016, he took out \$2,500 and rolled over the remainder  
 6 of what VGC owed him that day in a new VGC Note to pay \$55,634.54 on February 4, 2017.<sup>251</sup> Mr.  
 7 Ortiz testified that he still understood his principal to be guaranteed.<sup>252</sup> Mr. Ortiz testified that no one  
 8 told him that VGC was having issues paying back earlier investors and, had that information been  
 9 disclosed, he would not have agreed to roll over his investment.<sup>253</sup>

10 Mr. Ortiz testified that he received a text message from Mr. Caballero in November or  
 11 December 2016 stating that VGC was offering higher interest rates.<sup>254</sup>

12 Mr. Ortiz testified that on or about December 24, 2016, he took out \$1,700.00 and rolled over  
 13 the remainder of what VGC owed him that day in a new VGC Note to pay \$28,599.26 on March 24,  
 14 2017.<sup>255</sup> Mr. Ortiz testified that he still understood his principal to be guaranteed.<sup>256</sup> Mr. Ortiz testified  
 15 that no one told him that VGC was having issues paying back earlier investors and, had that information  
 16 been disclosed, he would not have agreed to roll over his investment.<sup>257</sup>

17 Mr. Ortiz testified that in late December 2016 or early January 2017, he wanted to take \$20,000  
 18 out of his VGC accounts and was told by Maria Verdugo that VGC could not make a payment because  
 19 VGC was low on funds.<sup>258</sup> Mr. Ortiz testified that about a week after that conversation he received a  
 20 text message from his sister saying that VGC was having issues and a lot of people were upset.<sup>259</sup> Mr.

23 <sup>248</sup> Tr. at 442-445; Exh. S-48 at ACC010203.

24 <sup>249</sup> Tr. at 445.

25 <sup>250</sup> Tr. at 445-446.

26 <sup>251</sup> Tr. at 446-449; Exh. S-48 at ACC010195, ACC010200.

27 <sup>252</sup> Tr. at 449.

28 <sup>253</sup> Tr. at 449-450.

<sup>254</sup> Tr. at 450-451.

<sup>255</sup> Tr. at 451-455, 464-465; Exh. S-48 at ACC010204, ACC010208.

<sup>256</sup> Tr. at 453.

<sup>257</sup> Tr. at 454-455.

<sup>258</sup> Tr. at 455-459, 465-466.

<sup>259</sup> Tr. at 460-461.

1 Ortiz testified that he went to VGC's office and found it closed.<sup>260</sup> Mr. Ortiz testified that he received  
 2 none of the money due him on the VGC Notes to mature in February and March 2017.<sup>261</sup>

3 Avi Samuel Beliak - Division Forensic Accountant

4 Mr. Beliak testified that he has been the Chief Accountant for the Commission's Securities  
 5 Division for about one year following four years of being a forensic accountant for the Division.<sup>262</sup>  
 6 Mr. Beliak testified that he reviewed approximately 5,000 documents in this case and participated in  
 7 examinations under oath for Isaias Verdugo, Maria Verdugo, and Mr. Caballero.<sup>263</sup> Mr. Beliak testified  
 8 that from August 2014 through January 2017, VGC raised \$6,586,601.22 from 380 investors, of which  
 9 337 were Arizona residents, who made a total of 755 investments in VGC.<sup>264</sup> Mr. Beliak testified that  
 10 the Division substantiated that \$408,202.84 was paid back to VGC's investors, leaving \$6,178,398.38  
 11 unreturned.<sup>265</sup> Mr. Beliak testified that from February 2016 through January 2017, \$315,900 of the  
 12 VGC investments were attributable to Mr. Caballero, of which \$88,714.21 was returned to the  
 13 investors, leaving an unpaid balance of \$227,185.79.<sup>266</sup> Mr. Beliak testified that from March 2016  
 14 through January 2017, \$279,660 of the VGC investments were attributable to Mario Verdugo, of which  
 15 \$15,000 was returned to the investors, leaving an unpaid balance of \$264,660.<sup>267</sup> Mr. Beliak testified  
 16 that from December 2016 through January 2017, \$121,900 of the VGC investments were attributable  
 17 to Maria Verdugo, with none of these funds returned to the investors.<sup>268</sup>

18 Mr. Beliak testified that six checks from VGC's account were paid to Mr. Caballero and one to  
 19 Jaime Verdugo, with one of the checks to Mr. Caballero stating "commission" in the memo line.<sup>269</sup>  
 20 Mr. Beliak testified that two VGC checks which possibly included investor funds, each in the amount  
 21 of \$75,000, were issued in May and June of 2016 for the purchase of Stained Glass Shop ("SGS").<sup>270</sup>

22  
 23 <sup>260</sup> Tr. at 462.

24 <sup>261</sup> Tr. at 462-463.

25 <sup>262</sup> Tr. at 469-470.

26 <sup>263</sup> Tr. at 474-475.

27 <sup>264</sup> Tr. at 477-483, 497; Exh. S-80.

28 <sup>265</sup> Tr. at 477-483; Exh. S-80. Mr. Beliak testified that the Division's numbers do not include repayments to an investor in excess of the principal invested. Tr. at 494-495, 502.

<sup>266</sup> Tr. at 483-484, 499-500; Exh. S-81.

<sup>267</sup> Tr. at 484; Exh. S-82.

<sup>268</sup> Tr. at 485; Exh. S-83.

<sup>269</sup> Tr. at 486-487; Exh. S-12d.

<sup>270</sup> Tr. at 488-489; Exh. S-11 at 155.



Mr. Beliak testified that Maria Verdugo received at least seven checks from VGC's account totaling approximately \$22,000, with one stating "commission" in the memo line and two others apparently referencing VGC Notes by number in the memo line.<sup>271</sup>

Bruce Edward Jones - Division Investigator

Mr. Jones testified that he has been an investigator with the Commission's Securities Division since 2017, and he has been assigned to this case since April 2018.<sup>272</sup>

Mr. Jones testified that Isaias Verdugo is the manager of VGC and Glass Hobby Industries, LLC ("Glass Hobby"), pursuant to the articles of organization filed for those two entities.<sup>273</sup> Mr. Jones testified that none of the Respondents have been registered with the Commission as securities dealers or salesmen between January 1, 2012 and August 2, 2018, as indicated on certifications of the Commission.<sup>274</sup> Mr. Jones testified that bank documents indicated that Isaias Verdugo was the initial signer for VGC's business account and that since at least December 16, 2016, Isaias Verdugo and Mario Verdugo were co-signers on the account.<sup>275</sup>

Mr. Jones testified that VGC investor Jose Beltran was interviewed by the Division.<sup>276</sup> Regarding Mr. Beltran, Mr. Jones testified that:

- Mr. Beltran learned about VGC from a friend, Jose Payan, who invested in VGC, and from a family friend, Mr. Medellin, having talked to Mr. Beltran's mother, Maria Ruiz, who testified at this hearing.<sup>277</sup>
- Mr. Medellin's being a pastor made the investment more trustworthy to Mr. Beltran.<sup>278</sup>
- Mr. Beltran called VGC wanting to invest in November 2016 and was instructed by Maria Verdugo to bring a check to the office.<sup>279</sup> At VGC's office, Mr. Beltran met Maria Verdugo who went over the VGC Note with him and told him that: VGC was

<sup>271</sup> Tr. at 490-492; Exh. S-16c.

<sup>272</sup> Tr. at 511-512.

<sup>273</sup> Tr. at 514-516; Exhs. S-1, S-2.

<sup>274</sup> Tr. at 516-521; Exhs. S-3 through S-10.

<sup>275</sup> Tr. at 521-523; Exhs. S-21, S-22.

<sup>276</sup> Tr. at 524; Exh. S-33.

<sup>277</sup> Tr. at 524-525.

<sup>278</sup> Tr. at 525.

<sup>279</sup> Tr. at 525.

1 purchasing products to sell on Amazon; his investment would be safe; his principal  
2 was guaranteed to be returned; and other investors were not having any problems.<sup>280</sup>

3 Mr. Beltran relied upon the representations of Maria Verdugo in making his  
4 investment of \$5,000 on November 14, 2016.<sup>281</sup> Maria Verdugo did not disclose  
5 that prior investors had not been paid back.<sup>282</sup> No one at VGC asked Mr. Beltran  
6 about his financial status or investment history, and no one told him about any risk  
7 associated with the investment.<sup>283</sup>

- 8 • On December 23, 2016, Mr. Beltran invested another \$5,000 in a VGC Note to pay  
9 \$6,000 on January 6, 2017.<sup>284</sup> Once again, Mr. Beltran met with Maria Verdugo  
10 who again did not disclose that prior investors had not been paid back.<sup>285</sup> Mr.  
11 Beltran was not told by anyone at VGC that there was a \$6,000 limit on the amount  
12 of money he could get back when his investment came due, regardless of whether  
13 he was owed more.<sup>286</sup> Mr. Beltran would not have invested in VGC if he had been  
14 told about the \$6,000 limit or that other investors were not being paid.<sup>287</sup> On January  
15 7, 2017, Mr. Beltran received a \$6,000 check from VGC for the money owed him  
16 on his December 23, 2016 VGC Note.<sup>288</sup>

- 17 • On January 11, 2017, Mr. Beltran invested another \$4,900 in a VGC Note to pay  
18 \$5,880 on January 25, 2017.<sup>289</sup> Once again, Mr. Beltran met with Maria Verdugo  
19 who again did not disclose that prior investors had not been paid back.<sup>290</sup> Mr.  
20 Beltran would not have invested again had he been told that prior investors had not  
21 been repaid.<sup>291</sup>

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23 <sup>280</sup> Tr. at 526-527.

24 <sup>281</sup> Tr. at 527; Exh. S-33 at ACC008855-ACC008856.

25 <sup>282</sup> Tr. at 526.

26 <sup>283</sup> Tr. at 528.

27 <sup>284</sup> Tr. at 528-530; Exh. S-33 at ACC008857-ACC008858.

28 <sup>285</sup> Tr. at 529.

<sup>286</sup> Tr. at 530.

<sup>287</sup> Tr. at 529-530.

<sup>288</sup> Tr. at 530-531; Exh. S-33 at ACC008859.

<sup>289</sup> Tr. at 531-533; Exh. S-33 at ACC008860-ACC008861.

<sup>290</sup> Tr. at 531-532.

<sup>291</sup> Tr. at 532.

- 1 • Mr. Beltran did not know that Mr. Medellin was making commissions from VGC
- 2 investors' money until after making his investments, and Mr. Beltran would not have
- 3 invested if this information had been disclosed.<sup>292</sup>
- 4 • Mr. Beltran discovered in late January or early February 2017 that VGC's office had
- 5 closed its doors.<sup>293</sup>
- 6 • Although Mr. Beltran was paid back on one of his investments, he did not receive
- 7 any payments on his other two investments.<sup>294</sup>
- 8 • When he made his investments, Mr. Beltran had a net worth under \$1,000,000 and
- 9 an annual income under \$200,000.<sup>295</sup>

10 Mr. Jones testified that VGC investor Jose Payan was interviewed by the Division.<sup>296</sup>

11 Regarding Mr. Payan, Mr. Jones testified that:

- 12 • Mr. Payan first learned about VGC when he received a call from Mr. Caballero
- 13 urging him to invest in VGC.<sup>297</sup> Mr. Payan had known Mr. Caballero for 15-20
- 14 years and they attended the same Phoenix church.<sup>298</sup> Mr. Payan trusted Mr.
- 15 Caballero based upon their church membership.<sup>299</sup>
- 16 • On November 3, 2016, Mr. Payan met with Isaias Verdugo at VGC's office in
- 17 Phoenix, Arizona, and was told that VGC was using investments to purchase
- 18 products from China to sell on Amazon and that investors were being paid 10-20%
- 19 on their investments.<sup>300</sup> Mr. Payan knew the Verdugo siblings from having seen
- 20 them at church years before.<sup>301</sup> Mr. Payan considered the Verdugo siblings to be
- 21 trustworthy based upon their church affiliation.<sup>302</sup> Isaias Verdugo told Mr. Payan
- 22 that his investment would be safe, that it would be protected by insurance, and that

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23 <sup>292</sup> Tr. at 533-534.

24 <sup>293</sup> Tr. at 534.

25 <sup>294</sup> Tr. at 535.

26 <sup>295</sup> Tr. at 535.

27 <sup>296</sup> Tr. at 536.

28 <sup>297</sup> Tr. at 536-537.

<sup>298</sup> Tr. at 536.

<sup>299</sup> Tr. at 536.

<sup>300</sup> Tr. at 537-538, 540.

<sup>301</sup> Tr. at 544.

<sup>302</sup> Tr. at 544-545.

VGC was certified with the Commission.<sup>303</sup> At the time, Mr. Payan had an annual income under \$300,000 and a net worth under \$1,000,000.<sup>304</sup> Mr. Payan was not asked about his financial status or his investment history.<sup>305</sup> Mr. Payan invested \$5,000 in a VGC Note to pay \$8,640 when it matured on February 3, 2017.<sup>306</sup>

- On November 4, 2016, Mr. Payan returned to VGC's office, met again with Isaias Verdugo, and invested another \$5,000 in a VGC Note to pay \$8,640 when it matured on February 4, 2017.<sup>307</sup> Once again, Mr. Payan was told that his investment was safe and his principal was guaranteed.<sup>308</sup>
- On December 28, 2016, Mr. Payan again met with Isaias Verdugo and he rolled over an original \$3,000 investment into a VGC Note to pay \$6,220.80 on March 28, 2017.<sup>309</sup>
- On January 6, 2017, Mr. Payan again met with Isaias Verdugo and he invested another \$5,000 in a VGC Note, to pay \$8,640 on April 6, 2017.<sup>310</sup>
- On January 13, 2017, Mr. Payan had a discussion with Isaias Verdugo about VGC reducing the interest it was paying on Mr. Payan's rollover contracts.<sup>311</sup> Isaias Verdugo told Mr. Payan that VGC was having cash flow issues and that he would have to be paid back \$1,000 per month at a 0% interest rate.<sup>312</sup> A new VGC Note was executed to pay \$31,000 on February 13, 2017, at 0% interest.<sup>313</sup> Mr. Payan received monthly payments of \$1,000 in January, February, March, and April, but none thereafter.<sup>314</sup>

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<sup>303</sup> Tr. at 537-538.

<sup>304</sup> Tr. at 538-539.

<sup>305</sup> Tr. at 539.

<sup>306</sup> Tr. at 540; Exh. S-78 at ACC025145.

<sup>307</sup> Tr. at 540-542; Exh. S-78 at ACC025146.

<sup>308</sup> Tr. at 541.

<sup>309</sup> Tr. at 542-544; Exh. S-78 at ACC025147. Mr. Jones testified that the Division did not have a copy of the VGC Note for the original \$3,000 investment. Tr. at 542.

<sup>310</sup> Tr. at 545.

<sup>311</sup> Tr. at 546-547.

<sup>312</sup> Tr. at 547-549.

<sup>313</sup> Tr. at 548; Exh. S-78 at ACC025149.

<sup>314</sup> Tr. at 549.

- 1 • On January 14, 2017, Mr. Payan executed two more VGC Notes paying 0% interest  
2 to mature on February 14, 2017, in the amounts of \$6,419.22 and \$97,461.25.<sup>315</sup>  
3 Mr. Payan executed a third VGC Note on January 14, 2017, paying 20% interest to  
4 pay \$8,640 on April 14, 2017.<sup>316</sup>
- 5 • At no time was Mr. Payan told that earlier investors had not been paid which, if  
6 disclosed, would have deterred Mr. Payan from investing.<sup>317</sup> At no time was Mr.  
7 Payan ever told about a \$6,000 limitation on withdrawals which, if disclosed, would  
8 have deterred him from investing in VGC.<sup>318</sup>

9 Mr. Jones testified that he was not aware of any VGC investors who were not repaid through  
10 2015.<sup>319</sup> On cross examination, Mr. Jones acknowledged that one of Mr. Payan's rollover contracts  
11 indicated an initial investment date of March 13, 2015.<sup>320</sup>

12 Eduardo Castillo - Phoenix Police Detective

13 Detective Castillo testified that he has been employed by the Phoenix Police Department for  
14 approximately seventeen years, the last seven as a detective in the Commercial Crimes Bureau.<sup>321</sup>  
15 Detective Castillo testified that he became aware of VGC after a group of detectives met with a pastor  
16 who reported that multiple people attending her church lost money investing in VGC.<sup>322</sup>

17 Detective Castillo testified that between 2017 and early 2018, his unit interviewed  
18 approximately 40 investors in VGC, who produced contracts and bank documents correlating with their  
19 VGC Notes.<sup>323</sup> Detective Castillo testified that he also spoke to two VGC employees, Maria Verdugo  
20 and Mr. Caballero.<sup>324</sup>

21 Detective Castillo testified that multiple investors described Maria Verdugo as one of the people  
22 in charge of VGC and that she had explained the VGC contracts to them.<sup>325</sup> Detective Castillo testified

23 <sup>315</sup> Tr. at 550-551; Exh. S-78 at ACC025150, ACC025151.

24 <sup>316</sup> Tr. at 550; Exh. S-78 at ACC025152.

25 <sup>317</sup> Tr. at 539, 541, 543, 545-546.

26 <sup>318</sup> Tr. at 543.

27 <sup>319</sup> Tr. at 553.

28 <sup>320</sup> Tr. at 555; Exh. S-78 at ACC025149.

<sup>321</sup> Tr. at 571-572.

<sup>322</sup> Tr. at 574.

<sup>323</sup> Tr. at 575, 580.

<sup>324</sup> Tr. at 575.

<sup>325</sup> Tr. at 576.

1 that Maria Verdugo told him she was VGC's office manager and that she started working part-time for  
 2 VGC before becoming full-time in November 2016.<sup>326</sup> Detective Castillo testified that Maria Verdugo  
 3 stated: she had authority to, and did, sign contracts for VGC; she created VGC's filing and appointment  
 4 system; and she explained contracts to investors, telling people that their initial investment would be  
 5 safe.<sup>327</sup>

6 Detective Castillo testified that he spoke with Maria Verdugo and Rosio Lozada regarding Ms.  
 7 Lozada's investment in VGC, and based on those discussions, testified that:

- 8 • Ms. Lozada and her husband invested approximately \$127,000 in VGC.<sup>328</sup>
- 9 • Ms. Lozada met with Maria Verdugo on or about January 12, 2017, because Ms.  
 10 Lozada was concerned about her investment after hearing a rumor that VGC was  
 11 not paying investors.<sup>329</sup> Maria Verdugo told Ms. Lozada that she was in charge of  
 12 VGC at that point, she was making positive changes, and that VGC was safe and  
 13 profitable.<sup>330</sup> Maria Verdugo told Ms. Lozada that her principal was guaranteed.<sup>331</sup>
- 14 • Reassured by Maria Verdugo, Ms. Lozada invested \$35,000 in a VGC Note to pay  
 15 \$42,000 on January 26, 2017.<sup>332</sup> Maria Verdugo took Ms. Lozada's check and  
 16 signed the VGC Note.<sup>333</sup> Ms. Lozada did not learn that VGC had a \$6,000 limit on  
 17 paying VGC Notes until after January 12, 2017, and she "felt tricked" because she  
 18 was not told about any issues with VGC.<sup>334</sup>
- 19 • Ms. Lozada received none of the \$42,000 promised to be paid to her.<sup>335</sup> Ms. Lozada  
 20 and her husband lost approximately \$81,000 from their investment in VGC.<sup>336</sup>

21 Detective Castillo testified that Maria Verdugo told him that she did not know much about what  
 22 Mr. Caballero did for VGC, but he: was a VGC employee; called investors to obtain or renew VGC

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23 <sup>326</sup> Tr. at 576.

24 <sup>327</sup> Tr. at 576-578.

<sup>328</sup> Tr. at 578, 644.

25 <sup>329</sup> Tr. at 578-579, 581, 650.

<sup>330</sup> Tr. at 578-579, 648-649.

26 <sup>331</sup> Tr. at 585.

<sup>332</sup> Tr. at 582; Exh. S-45 at ACC009983.

27 <sup>333</sup> Tr. at 586-587; Exh. S-45 at ACC009983.

<sup>334</sup> Tr. at 583-584.

28 <sup>335</sup> Tr. at 584.

<sup>336</sup> Tr. at 645.



Notes; often came to the VGC Office wearing a City of Phoenix employee shirt; and received commissions from VGC.<sup>337</sup>

Detective Castillo testified that Maria Verdugo said Mr. Medellin: spoke about the VGC investment process while preaching; was aggressive to the point of harassing investors; and was receiving commissions on the VGC investments.<sup>338</sup>

Detective Castillo testified that he spoke with Maria Verdugo and Jose Beltran regarding Mr. Beltran's investment in VGC, and based on those discussions, testified that: Mr. Beltran identified Maria Verdugo as having drafted his three VGC Notes and took his money while Maria Verdugo said that the two girls who worked the front of VGC's office printed the contracts.<sup>339</sup>

Detective Castillo testified that he spoke with Maria Verdugo and Ricardo Ayala regarding Mr. Ayala's investment in VGC, and based on those discussions, testified that:

- Mr. Ayala invested \$32,000 in VGC Notes.<sup>340</sup>
- On or about January 7, 2017, Mr. Ayala went to VGC's office to withdraw money from his account.<sup>341</sup> Mr. Ayala was told for the first time, by Maria Verdugo, that there was a limit on the amount he could withdraw and she gave him a check for \$6,000.<sup>342</sup> Mr. Ayala received a rollover VGC Note on January 7, 2017, signed by Maria Verdugo.<sup>343</sup>
- Mr. Ayala only received \$11,000 back from his investment.<sup>344</sup>

Detective Castillo testified that he spoke with Maria Verdugo and Cesar Bencomo regarding Mr. Bencomo's investment in VGC, and based on those discussions, testified that:

- Mr. Bencomo and his wife invested \$87,300 in VGC Notes.<sup>345</sup>

<sup>337</sup> Tr. at 587-588.

<sup>338</sup> Tr. at 589-590.

<sup>339</sup> Tr. at 590-591.

<sup>340</sup> Tr. at 640-641.

<sup>341</sup> Tr. at 591-594.

<sup>342</sup> Tr. at 592-595.

<sup>343</sup> Tr. at 595-596; Exh. S-30 at ACC008649.

<sup>344</sup> Tr. at 641.

<sup>345</sup> Tr. at 642, 666.

- Mr. Bencomo attempted to withdraw money from his VGC investment on January 26, 2017, but was told by Maria Verdugo that VGC had no checks.<sup>346</sup> Isaias Verdugo told Maria Verdugo not to allow withdrawals.<sup>347</sup>

- Mr. Bencomo lost \$67,116.67 from his principal investment.<sup>348</sup>

Detective Castillo testified that he spoke with Maria Verdugo and Rafael Del Toro Mejia regarding Mr. Mejia's investment in VGC, and based on those discussions, testified that:

- Mr. Del Toro invested his life savings of \$43,000 in VGC.<sup>349</sup>
- On January 26, 2017, Mr. Del Toro went to VGC's office to withdraw his money but was forced to rollover his VGC Note when Maria Verdugo told him that VGC did not have any checks.<sup>350</sup>
- Mr. Del Toro received no money back from his investment.<sup>351</sup>

Detective Castillo testified that he spoke with Emilia Duran and Mr. Caballero regarding Ms. Duran's investment in VGC, and based on those discussions, testified that:

- Ms. Duran suffered a loss of \$12,780.80 after investing \$20,096 in VGC.<sup>352</sup>
- Mr. Caballero encouraged Ms. Duran to invest by text message, and he brought her signed contracts and received her checks.<sup>353</sup>
- Jaime Verdugo did a rollover VGC Note for Ms. Duran, encouraging her to do a six-month term from December 21, 2016, to May 31, 2017, shortly before VGC closed its doors in January 2017.<sup>354</sup>
- Mario Verdugo did a rollover contract for Ms. Duran and he signed the VGC Note as Isaias Verdugo.<sup>355</sup>

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<sup>346</sup> Tr. at 596-597, 664-665.

<sup>347</sup> Tr. at 597-598.

<sup>348</sup> Tr. at 642, 666.

<sup>349</sup> Tr. at 599, 603, 643.

<sup>350</sup> Tr. at 599-601.

<sup>351</sup> Tr. at 643.

<sup>352</sup> Tr. at 606, 643.

<sup>353</sup> Tr. at 607, 655.

<sup>354</sup> Tr. at 607-608; Exh. S-39 at ACC009188.

<sup>355</sup> Tr. at 608.

- 1       • On or about January 25, 2017, Ms. Duran went to VGC's office to withdraw money,  
 2       but was told by Maria Verdugo that she could not withdraw any money because  
 3       VGC had no checks.<sup>356</sup> Ms. Duran was told to return on January 31, 2017, but when  
 4       she did the office was closed.<sup>357</sup>

5       Detective Castillo testified that he spoke with Oscar Flores and Maria Verdugo regarding Mr.  
 6       Flores' investment in VGC, and based on those discussions, testified that:

- 7       • Oscar Flores invested \$7,000 in VGC Notes.<sup>358</sup>  
 8       • On January 20, 2017, Mr. Flores went to VGC's office to withdraw investment  
 9       money but was told by Maria Verdugo that VGC had no checks and he was  
 10      pressured to reinvest at 20% over 15 days.<sup>359</sup>  
 11      • Mr. Flores was not told by anyone at VGC that the company was having trouble  
 12      repaying investors.<sup>360</sup>  
 13      • Mr. Flores never received any money back from his VGC investment.<sup>361</sup>

14      Detective Castillo testified that he spoke with Maria Verdugo and Jesus Guzman regarding Mr.  
 15      Guzman's investment in VGC, and based on those discussions, testified that:

- 16      • Mr. Guzman invested \$36,000 in VGC Notes.<sup>362</sup>  
 17      • Isaias Verdugo signed Mr. Guzman's first VGC Note and Mr. Guzman felt the  
 18      investment was safe based upon the language of the VGC Note and his conversation  
 19      with Isaias Verdugo.<sup>363</sup>  
 20      • Jaime Verdugo contacted Mr. Guzman before his VGC Notes came due.<sup>364</sup>  
 21      • Jaime Verdugo completed most of Mr. Guzman's VGC Notes and issued checks to  
 22      Mr. Guzman.<sup>365</sup>

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24      <sup>356</sup> Tr. at 610.

25      <sup>357</sup> Tr. at 610-611.

26      <sup>358</sup> Tr. at 643.

27      <sup>359</sup> Tr. at 611-613; Exh. S-59 at ACC018809.

28      <sup>360</sup> Tr. at 615.

<sup>361</sup> Tr. at 643.

<sup>362</sup> Tr. at 616, 644.

<sup>363</sup> Tr. at 616-617.

<sup>364</sup> Tr. at 617.

<sup>365</sup> Tr. at 617.

1 • On January 10, 2017, Mr. Guzman went to VGC's office to withdraw money, but  
 2 was told by Maria Verdugo that VGC would not be able to provide all of his  
 3 money.<sup>366</sup> Mr. Guzman received a VGC account check in the amount of \$1,542.76,  
 4 signed by Mario Verdugo, and rolled over the remainder of his funds in a new VGC  
 5 Note.<sup>367</sup>

6 • Mr. Guzman lost \$25,934.34 on his VGC investment.<sup>368</sup>

7 Detective Castillo testified that he spoke with Armando Hernandez regarding Mr. Hernandez's  
 8 investment in VGC, and based on those discussions, testified that:

9 • Mr. Hernandez invested \$7,500 in VGC and received no money back.<sup>369</sup>

10 • On January 19, 2017, Mr. Hernandez went to VGC's office to withdraw his money  
 11 but was convinced by Maria Verdugo to instead rollover his investment in a three-  
 12 month VGC Note, signed by Maria Verdugo.<sup>370</sup>

13 Detective Castillo testified that he spoke with Mr. Caballero, who told him that:

14 • Mr. Caballero and Isaias Verdugo, the owner, were the initial two people working  
 15 for VGC.<sup>371</sup>

16 • Mr. Caballero called people when their VGC Notes were coming due, met with  
 17 people to explain contracts and the investment process, and described how the  
 18 investment money would be used.<sup>372</sup> Mr. Caballero told investors that their principal  
 19 investment was safe.<sup>373</sup>

20 • Mr. Caballero received a 5% commission on every contract he brought in.<sup>374</sup>

21 • Mr. Caballero followed Isaias Verdugo's instructions and that Maria Verdugo was  
 22 in charge when Isaias Verdugo was not there.<sup>375</sup>

23  
 24 <sup>366</sup> Tr. at 617-619.

<sup>367</sup> Tr. at 620-621; Exh. S-42 at ACC009875, ACC009877.

25 <sup>368</sup> Tr. at 644.

<sup>369</sup> Tr. at 622, 640.

26 <sup>370</sup> Tr. at 623-625; Exh. S-28 at ACC008591.

<sup>371</sup> Tr. at 626.

27 <sup>372</sup> Tr. at 626-627.

<sup>373</sup> Tr. at 628.

<sup>374</sup> Tr. at 626.

28 <sup>375</sup> Tr. at 627-628, 651.

- 1 • Mr. Caballero wore a City of Phoenix shirt while working at VGC.<sup>376</sup>
- 2 • Mr. Caballero signed VGC Notes, including one for Mr. Bencomo, when others
- 3 were not available to sign.<sup>377</sup>
- 4 • VGC possibly had financial issues as early as September 2016.<sup>378</sup>
- 5 • Mr. Caballero reached out to several investors, including Cefora Barrios, to say that
- 6 VGC was offering a special interest rate sale.<sup>379</sup>

7 Detective Castillo testified that he spoke with Cefora Barrios regarding Ms. Barrios' investment  
8 in VGC, and based on those discussions, testified that:

- 9 • Isaias and Mario Verdugo explained the VGC Note to Ms. Barrios.<sup>380</sup>
- 10 • Ms. Barrios gave her investment check to Mr. Caballero.<sup>381</sup>

11 Detective Castillo testified that he spoke with Domingo Ortiz and Mr. Caballero regarding Mr.  
12 Ortiz's investment in VGC, and based on those discussions, testified that:

- 13 • Mr. Caballero encouraged Mr. Ortiz to invest, told him that the investment was safe,
- 14 completed the VGC Note, and took Mr. Ortiz's check.<sup>382</sup>
- 15 • Mr. Ortiz invested \$15,000 in VGC, of which he lost \$10,000.<sup>383</sup>

16 Detective Castillo testified that he spoke with Juan Ramirez and Mr. Caballero regarding Mr.  
17 Ramirez's investment in VGC, and based on those discussions, testified that:

- 18 • Mr. Ramirez invested \$10,000 in VGC Notes.<sup>384</sup>
- 19 • On October 21, 2016, Mr. Ramirez met with Mr. Caballero and invested in a VGC
- 20 Note at VGC's office where Mr. Caballero went over the investment process,
- 21 discussed the interest rate and told Mr. Ramirez that his principal investment would
- 22 be safe.<sup>385</sup>

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23  
24 <sup>376</sup> Tr. at 632.

25 <sup>377</sup> Tr. at 633.

<sup>378</sup> Tr. at 633.

<sup>379</sup> Tr. at 633-634.

<sup>380</sup> Tr. at 634.

<sup>381</sup> Tr. at 634.

<sup>382</sup> Tr. at 635-636.

<sup>383</sup> Tr. at 645.

<sup>384</sup> Tr. at 645.

28 <sup>385</sup> Tr. at 636-637; Exh. S-49 at ACC010252.

- 1 • On January 21, 2017, Mr. Ramirez returned to VGC's office to withdraw his money,
- 2 but Maria Verdugo told him that VGC had run out of checks.<sup>386</sup>
- 3 • Mr. Caballero offered Mr. Ramirez a rollover VGC Note to pay 25% interest, which
- 4 Mr. Ramirez was forced to accept.<sup>387</sup>
- 5 • Mr. Ramirez subsequently discovered that VGC had closed its office and he never
- 6 received any of his money back.<sup>388</sup>

7 Detective Castillo testified that Raul Torres invested \$9,500 in VGC and received no money  
 8 back.<sup>389</sup> Detective Castillo testified that Isaias Verdugo completed the VGC Note and told Raul Torres  
 9 that there was no risk investing in VGC.<sup>390</sup> Detective Castillo testified that Raul Torres told Mario  
 10 Verdugo he wanted his principal returned and Mario Verdugo referred him to VGC's attorney.<sup>391</sup>

11 Detective Castillo testified that Hilda Cabriaes invested \$3,000 in VGC and received no money  
 12 back.<sup>392</sup>

13 Detective Castillo testified that Jose Hernandez Vilchis invested \$6,000 in VGC and received  
 14 no money back.<sup>393</sup> Detective Castillo testified that Mr. Vilchis saw Mario Verdugo sign at least two  
 15 of his VGC Notes.<sup>394</sup>

16 Detective Castillo testified that Angel Medrano and his wife invested approximately \$20,000  
 17 in VGC Notes, of which they lost \$15,440.<sup>395</sup>

18 Detective Castillo testified that Fidel Moreno invested approximately \$18,000 in VGC Notes,  
 19 of which he lost \$8,000.<sup>396</sup> Detective Castillo testified that Mr. Moreno observed Maria Verdugo sign  
 20 VGC Notes and take investor money.<sup>397</sup> Detective Castillo testified that Mr. Moreno said Mario  
 21 Verdugo authorized Jaime Verdugo to take a cash deposit from Mr. Moreno.<sup>398</sup>

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22 <sup>386</sup> Tr. at 638-639.

23 <sup>387</sup> Tr. at 639; Exh. S-49 at ACC010253.

24 <sup>388</sup> Tr. at 640, 645.

25 <sup>389</sup> Tr. at 641.

26 <sup>390</sup> Tr. at 641.

27 <sup>391</sup> Tr. at 642.

28 <sup>392</sup> Tr. at 643.

<sup>393</sup> Tr. at 644.

<sup>394</sup> Tr. at 644.

<sup>395</sup> Tr. at 645.

<sup>396</sup> Tr. at 645-646.

<sup>397</sup> Tr. at 646.

<sup>398</sup> Tr. at 646.



1 Detective Castillo testified that Oscar Flores Lopez invested \$2,000 in VGC Notes and he  
2 received no money in return.<sup>399</sup>

3 Detective Castillo testified that Maricela and Alejandro Diaz invested a total of approximately  
4 \$60,500 in VGC Notes, all of which was lost.<sup>400</sup>

5 Detective Castillo testified that the approximately 40 investors he or his unit spoke to had no  
6 investment experience and they trusted that their investments with VGC would be safe because they  
7 were told that by their pastors or fellow church members.<sup>401</sup> Detective Castillo testified that these  
8 investors were directed to the clause in the VGC Notes that said their initial investment was safe from  
9 loss, and almost all were told that their principal investment was safe and insured by VGC.<sup>402</sup> Detective  
10 Castillo testified that the investors had very consistent stories even though they did not all know each  
11 other or communicate with each other prior to being interviewed.<sup>403</sup> Detective Castillo testified that  
12 VGC made payments to investors in 2014 and 2015, but by the end of 2016 large investments were  
13 coming in and investors were not being paid.<sup>404</sup>

14 Detective Castillo testified that none of the investors he met said that they believed their  
15 investments were insured through FDIC or had seen an FDIC plaque at VGC's offices.<sup>405</sup>

### 16 **III. Legal Argument**

#### 17 **A. Classification of the Transactions**

18 The Division contends that the transactions are securities. Arizona courts "give a liberal  
19 construction to the term 'security.'"<sup>406</sup> The Division contends that the transactions are securities  
20 because they are notes and/or investment contracts. Notes and investment contracts are both  
21 specifically included in the definition of a security under A.R.S. § 44-1801(27)(a). Therefore, if the  
22 record establishes that the transactions qualify as either notes or investment contracts, then the  
23 transactions are securities under the Act.

24  
25 <sup>399</sup> Tr. at 646-647.

<sup>400</sup> Tr. at 647.

26 <sup>401</sup> Tr. at 603-605.

<sup>402</sup> Tr. at 606, 661, 664.

27 <sup>403</sup> Tr. at 661-662, 664.

<sup>404</sup> Tr. at 657.

<sup>405</sup> Tr. at 672-673.

28 <sup>406</sup> *Siporin v. Carrington*, 200 Ariz. 97, 101, ¶ 18, 23 P.3d 92, 96 (App. 2001).

Isaias Verdugo contends that the transactions are not securities, but rather they are “commercial loans.”<sup>407</sup> Isaias Verdugo contends that the transactions are not investment contracts. Isaias Verdugo does not respond to the Division’s contention that the transactions are notes and, in fact, counsel for Isaias Verdugo refers to them as notes multiple times in the Post-Hearing Brief.<sup>408</sup> Maria Verdugo, Mario Verdugo, and Filemon Caballero make no contentions regarding whether the transactions are securities.

# 1. Notes

## a) Registration

Citing the Arizona Supreme Court in *State v. Tober*, the Division contends that all notes are securities that must be registered with the Commission unless an exemption applies.<sup>409</sup> The Division states that VGC identified each of its Agreements as a “note.”<sup>410</sup> The Division states that a note is “[a] written promise by one party (the maker) to pay money to another party (the payee) or to bearer. A note is a two-party negotiable instrument.”<sup>411</sup> The Division states that a negotiable instrument is defined as “[a] written instrument that (1) is signed by the maker or drawer, (2) includes an unconditional promise or order to pay a specified sum of money, (3) is payable on demand or at a definite time, and (4) is payable to order or to bearer.”<sup>412</sup>

The Division correctly states the standard applied by the Arizona Supreme Court with regard to determining whether a note is a security for registration purposes, namely that a note is a security unless otherwise exempted by statute.<sup>413</sup> Therefore, the VGC Agreements are notes and, therefore, they are securities, for registration purposes, unless exempt under the Act. We specifically consider the applicability of exemptions in a separate section, *infra*.

## b) Fraud

The Division contends that the VGC Notes are securities under the Securities Act’s anti-fraud provisions. When analyzing a note in terms of whether it is a security for the purposes of the antifraud

<sup>407</sup> Isaias Verdugo Post-Hearing Brief at 3:2-3, 4:5-7, 6:5-6.

<sup>408</sup> Isaias Verdugo Post-Hearing Brief at 3:3-4, 4:13-15, 6:2-4, 6:10-11, 10:9-10, 10:10-14.

<sup>409</sup> *State v. Tober*, 173 Ariz. 211, 213, 841 P.2d 206, 208 (1992).

<sup>410</sup> Exhs. S-27 at ¶¶ 6, 7, 9, 10; S-28 at ¶¶ 6, 7, 9, 10; S-30 – S-79 at ¶¶ 6, 7, 9, 10; S-84 at ¶¶ 6, 7, 9, 10.

<sup>411</sup> NOTE, Black’s Law Dictionary (11th ed. 2019).

<sup>412</sup> NEGOTIABLE INSTRUMENT, Black’s Law Dictionary (11th ed. 2019).

<sup>413</sup> *Tober*, 173 Ariz. at 213, 841 P.2d at 209 (1992).

1 provisions of the Act, the Arizona Court of Appeals has adopted the “family resemblance” test, which  
 2 was used under federal securities law by the United States Supreme Court in *Reves v. Ernst & Young*,<sup>414</sup>  
 3 and adopted in Arizona in *MacCollum v. Perkinson*.<sup>415</sup> The test begins with the presumption that every  
 4 note is a security.<sup>416</sup> This presumption can be rebutted if a review of four factors establishes a “family  
 5 resemblance” to a list of instruments that are not securities, or if those factors establish a new category  
 6 of instrument that should be added to the list.<sup>417</sup> This list of notes “that are not securities include[s] the  
 7 note delivered in consumer financing, the note secured by a mortgage on a home, the short-term note  
 8 secured by a lien on a small business or some of its assets, the note evidencing a ‘character’ loan to a  
 9 bank customer, short-term notes secured by an assignment of accounts receivable, or a note which  
 10 simply formalizes an open-account debt incurred in the ordinary course of business” as well as “notes  
 11 evidencing loans by commercial banks for current operations.”<sup>418</sup> The four factors considered are: 1)  
 12 the motivations prompting a reasonable buyer and seller to enter the transaction; 2) the plan of  
 13 distribution of the instrument to determine if it is an instrument subject to common speculation or  
 14 investment; 3) the reasonable expectations of the investing public; and 4) whether some risk-reducing  
 15 factor, such as the existence of another regulatory scheme, would render application of the Securities  
 16 Act unnecessary.<sup>419</sup> We may also consider the notes in light of the economic realities of the  
 17 transaction.<sup>420</sup>

18       Isaias Verdugo’s contention that the VGC Notes are “commercial loans” does not fit any of the  
 19 established exceptions of notes that are not securities. The only established exception that the VGC  
 20 Notes might arguably fit is that of the short-term note secured by a lien on a small business or some of  
 21 its assets. The VGC Notes generally came due between two weeks to three months<sup>421</sup> and they often  
 22 included a “principal guarantee” clause.<sup>422</sup> However, the Respondents allowed and/or encouraged  
 23

24 <sup>414</sup> *Reves v. Ernst & Young*, 494 U.S. 56, 110 S. Ct. 945, 108 L. Ed. 2d 47 (1990).

25 <sup>415</sup> *MacCollum v. Perkinson*, 185 Ariz. 179, 913 P.2d 1097 (App. 1996).

26 <sup>416</sup> *Reves*, 494 U.S. at 65, 110 S. Ct. at 951.

27 <sup>417</sup> *Id.* Since both inquiries involve application of the same four-factor test, they “essentially collapse into a single inquiry.”  
 28 *S.E.C. v. Wallenbrock*, 313 F.3d 532, 537 (9th Cir. 2002).

<sup>418</sup> *Reves*, 494 U.S. at 65, 110 S. Ct. at 951 (internal quotations omitted).

<sup>419</sup> *Reves*, 494 U.S. at 66-67, 110 S. Ct. at 951-952; *MacCollum* 185 Ariz. at 187-188, 913 P.2d at 1105-1106.

<sup>420</sup> *Wallenbrock*, 313 F.3d at 538.

<sup>421</sup> See, e.g., Exhs. S-50, S-51.

<sup>422</sup> The “principal guarantee” read:

investors to rollover the VGC Notes, resulting in investments lasting months or years past the original maturity date of the note.<sup>423</sup> Further, the terms of the “principal guarantee” clause did not establish a lien,<sup>424</sup> as it did not grant investors a legal interest in VGC’s assets and, moreover, not all of the VGC Notes included the “principal guarantee.”<sup>425</sup> As such, the VGC Notes are not among the named instruments that are not securities.

The first *Reves* factor is “to assess the motivations that would prompt a reasonable seller and buyer to enter into [the transaction].”<sup>426</sup> Under the first factor, a note is more likely a security “[i]f the seller’s purpose is to raise money for the general use of a business enterprise or to finance substantial investments and the buyer is interested primarily in the profit the note is expected to generate.”<sup>427</sup> Conversely, a note is less likely to be a security “[i]f the note is exchanged to facilitate the purchase and sale of a minor asset or consumer good, to correct for the seller’s cash-flow difficulties, or to advance some other commercial or consumer purpose.”<sup>428</sup> VGC needed cash to fulfill Amazon orders and primarily used investor funds to purchase inventory to grow the company and, later, for business expenses as well.<sup>429</sup> Buyers of the VGC Notes invested with the expectation of receiving significant returns.<sup>430</sup> This factor weighs in favor of finding that the VGC Notes are securities.

The second *Reves* factor is the plan of distribution. Offers and sales to a broad segment of the public will establish common trading in an instrument.<sup>431</sup> “If notes are sold to a wide range of unsophisticated people, as opposed to a handful of institutional investors, the notes are more likely to

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Verdugo Gift Company agrees to keep assets equal to or greater than the value of all combined investment loans. In the event of non-payment of this note[,] assets should be sold and proceeds collected should be used to pay the principal amount of this note. Verdugo Gift Company must furnish a detailed statement of all assets upon written request within 14 business days of receiving such request.

*See, e.g.*, Exh. S-16a.

<sup>423</sup> Exhs. S-11 at 146, S-13 at 194-195, S-27, S-28, S-30 through S-79, S-84; Tr. at 95-96, 139-140, 253, 273, 339-345, 370, 372, 432-435, 437, 442, 447.

<sup>424</sup> A lien is “[a] legal right or interest that a creditor has in another’s property, lasting usu. until a debt or duty that it secures is satisfied.” LIEN, Black’s Law Dictionary (11th ed. 2019).

<sup>425</sup> Exhs. S-27 at ACC008291, ACC008292, ACC008310-ACC008316, S-35, S-36, S-39 at ACC009171-ACC009174, ACC009182-ACC009184, S-56 at ACC018738, ACC018740, ACC018744, S-63, S-78 at ACC025145, ACC025147, ACC025149-ACC025151, S-79.

<sup>426</sup> *Reves*, 494 U.S. at 66, 110 S. Ct. at 951.

<sup>427</sup> *Id.*, 494 U.S. at 66, 110 S. Ct. at 951-952.

<sup>428</sup> *Id.*, 494 U.S. at 66, 110 S. Ct. at 952.

<sup>429</sup> Exhs. S-11 at 59, 102, 104; S-13 at 221, 222.

<sup>430</sup> *See, e.g.*, Tr. at 79-80, 248, 298, 324, 604.

<sup>431</sup> *Reves*, 494 U.S. at 68, 110 S. Ct. at 953.

1 be securities.”<sup>432</sup> However, the number of investors is not dispositive, but must be weighed against the  
 2 purchasers’ need for the protection of the securities laws.<sup>433</sup> VGC placed no restrictions on who could  
 3 invest in the VGC Notes.<sup>434</sup> A number of the VGC investors had no experience in making investments  
 4 and trusted what they were told, that their investments would be safe.<sup>435</sup> The protections of securities  
 5 laws would have benefited the investors in this case. The second factor supports a finding that the  
 6 VGC Notes are securities.

7 The third *Reves* factor is the reasonable expectations of the investing public. When a note seller  
 8 calls the note an investment, it is generally reasonable for a prospective purchaser to take the offeror at  
 9 its word, but when note purchasers are expressly put on notice that a note is not an investment, it is  
 10 usually reasonable to conclude that the investing public would not expect the notes to be securities.<sup>436</sup>  
 11 The VGC Notes themselves were alternatively titled “Short Term Lender Agreement”<sup>437</sup> or “Short  
 12 Term Investment Agreement.”<sup>438</sup> Regardless of the title used, the VGC Notes all identified the  
 13 principal paid by VGC investors as the “Original Investment” in bold just right of the title, before  
 14 describing the parties as “borrower” and “lender” and referring to the transaction as a “loan” in the text  
 15 of the note.<sup>439</sup> While the VGC Notes themselves have ambiguous wording, the VGC investors testified  
 16 that they were making investments, not loans.<sup>440</sup> The third factor supports a finding that the VGC  
 17 Notes are securities.

18 The fourth *Reves* factor requires us to look at risk-reducing factors that would diminish the need  
 19 for protection under the Act, such as the presence of other regulatory schemes, collateral or  
 20 insurance.<sup>441</sup> While some investors were told that their investments were insured,<sup>442</sup> the record does  
 21 not establish that any insurance protected the investments. The fourth factor supports a finding that the

22 <sup>432</sup> *U.S. S.E.C. v. Zada*, 787 F.3d 375, 381 (6th Cir. 2015).

23 <sup>433</sup> *McNabb v. S.E.C.*, 298 F.3d 1126, 1132 (9th Cir. 2002).

24 <sup>434</sup> Exh. S-13 at 274-275.

25 <sup>435</sup> Tr. at 79, 244, 300, 327, 412-413, 421, 603-605.

26 <sup>436</sup> *Stoiber v. S.E.C.*, 161 F.3d 745, 751 (D.C. Cir. 1998).

27 <sup>437</sup> See, e.g. Exhs. S-28, S-30, S-31.

28 <sup>438</sup> See, e.g. Exhs. S-35, S-36.

<sup>439</sup> Exhs. S-27, S-28, S-30 through S-79, S-84.

<sup>440</sup> Tr. at 255-256, 257-258, 260, 261, 327, 365-366, 390-391, 422-423, 424, 526, 538, 577, 604-605. We note that after referring to the VGC Notes as investments, investor Mr. Barrios called the VGC Note a loan on cross-examination (Tr. at 287).

<sup>441</sup> *Resolution Trust Corp. v. Stone*, 998 F.2d 1534, 1539 (10th Cir. 1993).

<sup>442</sup> Tr. at 260, 261, 286-287, 288, 289-290, 365-366, 538.



1 VGC Notes are securities.

2 Under Arizona law, the VGC Notes are presumed to be securities. Having considered the  
3 family resemblances test under *Reves*, we conclude that the VGC Notes do not resemble instruments  
4 on the *Reves* list, and the evidence does not establish that they should be a category added to that list.  
5 Accordingly, we find the VGC notes are securities subject to the antifraud provisions of the Securities  
6 Act.

7 2. Exemptions to Registration Requirements

8 a) Argument

9 The Respondents cite no specific exemptions that would apply to the VGC Notes. Isaias  
10 Verdugo contends that the VGC Notes are not securities, but “commercial short-term loans.” Isaias  
11 Verdugo cites no statutory exemption to the Act’s registration requirements arising from this  
12 contention.

13 The Division argues that the Respondents did not meet their burden of establishing that the  
14 VGC Notes qualified for an exemption under the Act. The Division states that federal law, specifically  
15 Section 18(b)(4)(C) of the Securities Act of 1933, preempts state securities registration provisions with  
16 respect to certain securities, including any note that “arises out of a current transaction or the proceeds  
17 of which have been or are to be used for current transactions, and which has a maturity at the time of  
18 issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity  
19 of which is likewise limited.”<sup>443</sup> The Division notes that Arizona law is consistent with this federal  
20 preemption and cites A.R.S. §44-1843(A)(8), which exempts securities, dealers, and salesmen from  
21 the registration requirements found in A.R.S. §§ 44-1841 and 44-1842 when the securities are:

22 Commercial paper that arises out of a current transaction or the proceeds of which have  
23 been or are to be used for current transactions, that evidences an obligation to pay cash  
24 within nine months of the date of issuance or sale, exclusive of grace, or any renewal of  
25 such paper that is likewise limited, or any guarantee of such paper or of any such  
26 renewal.

27  
28 <sup>443</sup> Division Reply Re: Isaias Verdugo at 9, citing 15 U.S.C. §77r(b)(4)(C).



1 The Division believes that this exemption does not apply because: 1) VGC investors were  
 2 allowed, encouraged, and/or forced to roll over their VGC Notes; 2) the Respondents have failed to  
 3 present evidence that the VGC investors were “highly sophisticated” investors; and 3) the Respondents  
 4 have failed to present evidence that the sales arose “out of a current transaction or the proceeds of  
 5 which have been or are to be used for current transactions.”

6 b) Analysis and Conclusion

7 Under A.R.S. § 44-2033, the burden of proof to establish an exemption from registration is  
 8 borne by the party raising the defense. “Because of the vital public policy underlying the registration  
 9 requirement, there must be strict compliance with all the requirements of the exemption statute.”<sup>444</sup>

10 Although A.R.S. § 44-1843(A)(8) exempts securities, dealers, and salesmen from the  
 11 registration requirements found in A.R.S. §§ 44-1841 and 44-1842 when the securities are “commercial  
 12 paper” meeting specific requirements, the Respondents failed to make any argument or provide any  
 13 evidence that the VGC Notes comply with the terms of the statutory exemption. Nor have the  
 14 Respondents provided any evidence that the VGC Notes meet the United States Supreme Court’s  
 15 definition of commercial paper as “short-term, high quality instruments issued to fund current  
 16 operations and sold only to highly sophisticated investors.”<sup>445</sup> On the contrary, the evidence of record  
 17 establishes that many of the VGC investors had little or no investment experience.<sup>446</sup> The Respondents  
 18 have failed to meet their burden of proof to establish an exemption from the registration requirements.

19 B. Within or from Arizona

20 The Division contends that the Respondents offered or sold securities “within or from this  
 21 state,” an element of violations of A.R.S. §§ 44-1841, 44-1842, and 44-1991(A). The Division notes  
 22 that VGC, at all times relevant to this proceeding, was an Arizona limited liability company with its  
 23 principal place of business in Phoenix, Arizona.<sup>447</sup> The Division further notes that VGC’s business  
 24 accounts at Wells Fargo Bank were in Arizona and that the Respondents were Arizona residents.<sup>448</sup>

26 <sup>444</sup> *State v. Baumann*, 125 Ariz. 404, 411, 610 P.2d 38, 45 (1980).

27 <sup>445</sup> *Reves*, 494 U.S. at 70, 110 S. Ct. at 954; *Wallenbrock*, 313 F.3d at 541.

27 <sup>446</sup> Tr. at 79, 203, 244, 297, 327, 421, 603-605.

27 <sup>447</sup> Exh. S-1.

28 <sup>448</sup> Exhs. S-11 at 7, S-15 at 7-8, S-18 at 18, S-21, S-22, S-23.

1 The Respondents do not challenge the Division's contention that the VGC notes were offered  
 2 or sold within or from Arizona. The Division has established that the securities at issue were sold  
 3 "within or from this state," as required to find a violation under A.R.S. §§ 44-1841, 44-1842, and 44-  
 4 1991(A).

5 C. Registration Violations

6 Under A.R.S. § 44-1841, it is unlawful to sell or offer for sale within or from Arizona any  
 7 securities unless those securities have been registered or are exempt from registration. The VGC Notes  
 8 have not been registered by the Commission.<sup>449</sup> Under A.R.S. § 44-1842, it is unlawful for any dealer  
 9 or salesman to sell or offer to sell any securities within or from Arizona unless the dealer or salesman  
 10 is registered. The Respondents were not registered as securities dealers or salesmen by the  
 11 Commission.<sup>450</sup> The record does not establish the presence of any exemptions to the registration  
 12 requirements.

13 The Division argues that an action brought under A.R.S. § 44-2032, such as this matter, "may  
 14 be brought against any person, including any dealer, salesman or agent, who made, participated in or  
 15 induced the unlawful sale or purchase, and such persons shall be jointly and severally liable to the  
 16 person who is entitled to maintain such action."<sup>451</sup> The Division alleges 755 violations each of A.R.S.  
 17 §§ 44-1841 and 44-1842 against VGC and Isaias Verdugo for the sales of VGC Notes.<sup>452</sup> The Division  
 18 alleges violations of A.R.S. §§ 44-1841 and 44-1842 against the remaining Respondents based upon  
 19 the number of VGC Note sales attributable to them: 10 sales by Maria Verdugo,<sup>453</sup> 33 sales by Mario  
 20 Verdugo,<sup>454</sup> and 30 sales by Mr. Caballero.<sup>455</sup>

21 We have determined, *supra*, that the VGC Notes are securities which are not exempt from  
 22 registration requirements. The evidence of record established that VGC and Isaias Verdugo committed  
 23 755 violations of A.R.S. §§ 44-1841 and 44-1842 from the sales of 755 VGC Notes.<sup>456</sup> The record  
 24

25 <sup>449</sup> Exhs. S-3, S-10.

<sup>450</sup> Exhs. S-3, S-4, S-5, S-6, S-7, S-8, S-9, S-10, S-11 at 9.

<sup>451</sup> A.R.S. § 44-2003(A).

<sup>452</sup> Exh. S-80.

<sup>453</sup> Exh. S-83.

<sup>454</sup> Exh. S-82.

<sup>455</sup> Exh. S-81.

<sup>456</sup> Exh. S-80.

1 further established that the other Respondents committed violations of A.R.S. §§ 44-1841 and 44-1842  
2 from their sales of VGC Notes. However, the number of sales alleged by the Division are not all  
3 supported by the evidence of record.

4 The summary exhibit prepared by the Division's forensic accountant lists 33 transactions  
5 attributable to Mario Verdugo, with 29 reflecting investments and 4 reflecting payments to investors.<sup>457</sup>  
6 As such, Mario Verdugo committed 29 violations each of A.R.S. §§ 44-1841 and 44-1842. The  
7 summary exhibit prepared by the Division's forensic accountant lists 30 transactions attributable to Mr.  
8 Caballero, with 19 reflecting investments and 11 reflecting payments to investors.<sup>458</sup> As such, Mr.  
9 Caballero committed 19 violations each of A.R.S. §§ 44-1841 and 44-1842. The summary exhibit  
10 prepared by the Division's forensic accountant lists 10 transactions attributable to Maria Verdugo, all  
11 of which were investments.<sup>459</sup> Accordingly, Maria Verdugo committed 10 violations each of A.R.S.  
12 §§ 44-1841 and 44-1842.

13 D. Fraud Violations

14 1. Argument

15 The Division contends that the Respondents engaged in multiple violations of the antifraud  
16 provisions of the Securities Act, A.R.S. § 44-1991(A). A.R.S. § 44-1991 provides, in pertinent part:

17 It is a fraudulent practice and unlawful for a person, in connection with  
18 a transaction or transactions within or from this state involving an offer  
19 to sell or buy securities, or a sale or purchase of securities, including  
20 securities exempted under section 44-1843 or 44-1843.01 and including  
21 transactions exempted under section 44-1844, 44-1845 or 44-1850,  
22 directly or indirectly to do any of the following:

- 23 1. Employ any device, scheme or artifice to defraud.
- 24 2. Make any untrue statement of material fact, or omit to state  
25 any material fact necessary in order to make the statements  
26 made, in the light of the circumstances under which they were

27 <sup>457</sup> Exh. S-82.

28 <sup>458</sup> Exh. S-81.

<sup>459</sup> Exh. S-83.

made, not misleading.

3. Engage in any transaction, practice or course of business which operates or would operate as a fraud or deceit.

An issuer of securities has an affirmative duty not to mislead potential investors.<sup>460</sup> Under A.R.S. § 44-1991(A)(2), a material fact is one that “would have assumed actual significance in the deliberations of the reasonable buyer.”<sup>461</sup> The test does not require an omission or misstatement to actually have been significant to a particular buyer.<sup>462</sup> Materiality will also be found when there is a “substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the total mix of information made available.”<sup>463</sup>

The Division alleges the following violations of the anti-fraud provisions of the Act:

1. The Respondents misrepresented to the VGC investors that their investment funds would be used only to purchase inventory for VGC. Instead, VGC and Isaías Verdugo used a portion of the investment funds to pay commissions to Mr. Caballero and Mr. Medellín, to purchase SGS, and to operate Glass Hobby and SGS.
2. On or about November 6, 2016, Mario Verdugo misrepresented to at least two VGC investors that their principal investments would be safe, VGC had insurance to protect principal investments, and/or VGC had not had prior issues paying out on investments. Contrary to that statement, at least 8 prior VGC investors with VGC Notes due on or before October 22, 2016, received neither any returns on their investment nor a return of their principal.
3. On or about November 6, 2016, Mr. Caballero misrepresented to at least one VGC investor that his principal investments were guaranteed to be returned because VGC had insurance to pay back principal investments. Contrary to that statement, at least 8 prior VGC investors with VGC Notes due on or before October 22, 2016, received neither any returns on their investment nor a return of their principal.

<sup>460</sup> *Trimble v. Am. Sav. Life Ins. Co.*, 152 Ariz. 548, 553, 733 P.2d 1131, 1136 (App. 1986).

<sup>461</sup> *Aaron v. Fromkin*, 196 Ariz. 224, 227 ¶ 14, 994 P.2d 1039, 1042 (App. 2000).

<sup>462</sup> *Hirsch v. Arizona Corp. Comm’n*, 237 Ariz. 456, 464 ¶ 27, 352 P.3d 925, 933 (App. 2015).

<sup>463</sup> *Caruthers v. Underhill*, 230 Ariz. 513, 524 ¶ 43, 287 P.3d 807, 818 (App. 2012) (internal quotations omitted).

4. On or about November 14, 2016, Maria Verdugo misrepresented to at least one VGC investor that his principal investments were protected and safe because other VGC investors were making money without problems. Contrary to that statement, at least 8 prior VGC investors with VGC Notes due on or before October 22, 2016, received neither any returns on their investment nor a return of their principal.
5. On or about January 12, 2017, Maria Verdugo met with a concerned VGC investor and represented that VGC's business was safe and profitable and that VGC investors were making money on their investments. Contrary to those representations, at least 8 prior VGC investors with VGC Notes due on or before October 22, 2016, received neither any returns on their investment nor a return of their principal.
6. The Respondents failed to disclose to any of the relevant VGC investors, prior to investing, that from at least October 2016 through at least January 2017, VGC and Isaias Verdugo instituted and enforced an unwritten investment return policy that restricted the amount of money a VGC investor could be paid on the investor's VGC Note to a limit of \$6,000 every two weeks (the "\$6,000 Policy") regardless of whether the investor was owed more or the investor did not want to roll over the note.
7. Respondents VGC, Isaias Verdugo, Mario Verdugo, and Maria Verdugo failed to disclose to some of the later VGC investors that prior investors received neither the promised interest on their investment nor a return of their principal.

The Division alleges violations of A.R.S. § 44-1991(A) against the Respondents in the following numbers: 755 against VGC, 755 against Isaias Verdugo, 32 against Mario Verdugo, 19 against Maria Verdugo, and 17 against Mr. Caballero. The Division does not specifically state how it reached these respective totals against the individual Respondents. The Respondents challenge factual assertions made by the Division in finding fraud violations.<sup>464</sup>

<sup>464</sup> Isaias Verdugo also asserts that "[t]he hearsay testimony of the investigator, which was elicited through [sic] leading questions, along with his spreadsheets of claimed damages must be disregarded by the Commission in their entirety." Isaias Verdugo Post-Hearing Brief at 7. At various points of his Post-Hearing Brief, Isaias Verdugo attributes the testimony of Mr. Jones, the testimony of Detective Castillo, and the spreadsheets prepared by Mr. Beliak to "the investigator." Isaias Verdugo Post-Hearing Brief at 7, 9, 10. At the hearing, Isaias Verdugo stipulated to the admission of Mr. Beliak's



1                   2. Analysis and Conclusion

2           The evidence of record establishes that the Respondents represented to VGC investors that their  
3 investment funds would be used for the purchase of merchandise that VGC would sell online.<sup>465</sup> VGC  
4 investors were not informed that a portion of investment funds was being used to pay commissions to  
5 Mr. Caballero, Mr. Medellin, and others.<sup>466</sup> At least 150 VGC investors were also not informed that a  
6 portion of their investment funds was used to fund the operations of Glass Hobby, another company  
7 managed by Isaias Verdugo, and to purchase another business, SGS.<sup>467</sup> We find that VGC and Isaias  
8 Verdugo, who cosigned the 755 VGC Notes on behalf of VGC, violated A.R.S. § 44-1991(A) by  
9 engaging in any transaction, practice or course of business which operates or would operate as a fraud  
10 or deceit, namely the undisclosed use of a portion of investor funds that was contrary to the  
11 representations made to VGC's investors. Accordingly, we find VGC and Isaias Verdugo each  
12 responsible for fraud for all 755 VGC investments.

13           The Division alleges fraud violations against Mario Verdugo, Maria Verdugo, and Mr.  
14 Caballero based upon at least eight unnamed VGC investors who were not paid on VGC Notes that  
15 were due on or before October 22, 2016. However, the record does not establish that any defaults had  
16 occurred as of October 22, 2016. As proof of its allegation, the Division cites portions of Isaias  
17 Verdugo's examination under oath, and VGC Notes presented as exhibits presented therein.<sup>468</sup>  
18 However, the evidence of record establishes that these VGC Notes were rolled over to later payment  
19 dates.<sup>469</sup> None of the investors for these particular VGC Notes testified at the hearing. Two of these  
20 investors, Mr. Mejia and Mr. Ayala, were mentioned by Detective Castillo, who testified that they both  
21 rolled over VGC Notes in January 2017 because they were not allowed to withdraw their entire amounts  
22

23           \_\_\_\_\_ spreadsheets and he made no objections to any of the questions asked of Mr. Jones, Detective Castillo, or Mr. Beliak. Tr.  
24 at 16-17, 469-560, 570-674; Exhs. S-80 through S-83. "It is clear in Arizona that hearsay is admissible in administrative  
proceedings, and that it may, in proper circumstances, be given probative weight." *Begay v. Arizona Dep't of Econ. Sec.*,  
128 Ariz. 407, 409, 626 P.2d 137, 139 (App. 1981). We find no basis to exclude the spreadsheets prepared by Mr. Beliak  
or any of the testimony of Mr. Jones, Detective Castillo, or Mr. Beliak.

25           <sup>465</sup> Exhs. S-11 at 94-95, 104, S-13 at 197-198, S-15 at 59-60, S-18 at 30, 32, 34, 166; Tr. at 123, 134, 225-226, 237, 257,  
307, 325, 420, 430, 537; Medellin Consent Order at ¶ 28.

26           <sup>466</sup> Exhs. S-11 at 108, S-13 at 276, S-18 at 120-121, 166-167; Medellin Consent Order at ¶¶ 28, 30; Tr. at 79, 105, 115, 137,  
150, 191, 264-265, 297, 534.

27           <sup>467</sup> Exh. S-11 at 135-136, 157-158.

28           <sup>468</sup> Division Reply Re: Maria Verdugo, Mario Verdugo and Filemon Caballero at 5.

<sup>469</sup> Exhs. S-13 at 281-296, S-14b through S-14o.



1 due at that time.<sup>470</sup> Detective Castillo made no mention of either Mr. Mejia or Mr. Ayala being denied  
 2 withdrawals from VGC before January 2017. Among the VGC investors appearing at the hearing,  
 3 none testified to being denied withdrawals on their VGC Notes until late December 2016 or January  
 4 2017.<sup>471</sup> Likewise, none of the testimony from Detective Castillo or the Division's Investigator, Mr.  
 5 Jones, suggests that any VGC investors were denied the withdrawal of their funds before January  
 6 2017.<sup>472</sup> Furthermore, Isaias Verdugo, in his Examination Under Oath, testified that VGC had not  
 7 defaulted on any payments until January 2017.<sup>473</sup> Of the approximately 377 investors in VGC Notes,  
 8 not a single one testified to having been denied access to investment funds on or before October 22,  
 9 2016. The weight of the evidence establishes that any VGC Notes which came due on or before  
 10 October 22, 2016, would not have been paid out to investors on or before that date because those VGC  
 11 investors voluntarily elected to roll over their investments in new VGC Notes with later due dates.  
 12 Accordingly, we find the record does not support the Division's alleged violations of A.R.S. § 44-  
 13 1991(A) that are tied to the non-payment of VGC investors on or before October 22, 2016.

14 The record established the following actions attributable to Mario Verdugo, Maria Verdugo,  
 15 and Mr. Caballero that constituted violations of A.R.S. § 44-1991(A):

16 On June 29, 2016, Mr. Caballero made, participated in or induced the sale of a VGC Note to  
 17 Mr. Barrios.<sup>474</sup> Mr. Caballero told Mr. Barrios that investments were being used only to purchase  
 18 inventory for VGC to sell online.<sup>475</sup> Mr. Caballero failed to disclose that VGC was using investment  
 19 funds to pay commissions to Mr. Caballero, Mr. Medellin, and others, or to fund Glass Hobby and  
 20 SGS. We find this to be an omission of a material fact necessary in order to make the statements of  
 21 Mr. Caballero not misleading.

24 <sup>470</sup> Exhs. S-14i, S-14l; Tr. at 592-596, 599-601.

25 <sup>471</sup> Mr. Ortiz – late December 2016 or early January 2017 (Tr. at 455-459, 465-466), Mr. and Mrs. Ruiz – January 5, 2017  
 (Tr. at 153-154, 192-194), Mr. Torres – on or about January 6, 2017 (Tr. at 93-96; Exh. S-68 at ACC019053), Ms. Bonilla  
 – on or about January 20, 2017 (Tr. at 377-378; Exh. S-84 at ACC025603).

26 <sup>472</sup> Mr. Guzman – January 10, 2017 (Tr. at 617-619), Mr. Payan – January 13, 2017 (Tr. at 547-549), Mr. Flores - January  
 20, 2017 (Tr. at 611-613). Mr. Ramirez - January 21, 2017 (Tr. at 638-639), Ms. Duran - January 25, 2017 (Tr. at 610), Mr.  
 Bencomo – January 26, 2017 (Tr. at 596-597, 664-665).

27 <sup>473</sup> Exh. S-11 at 144-145.

28 <sup>474</sup> Tr. at 234-240.

<sup>475</sup> Tr. at 237, 265.

1 On or about September 28, 2016, Mario Verdugo made, participated in or induced the sale of a  
 2 rollover VGC Note to Ms. Esparza to pay 20% interest after three months.<sup>476</sup> Mario Verdugo did not  
 3 tell Ms. Barrios that her note, when due, would be subject to the \$6,000 Policy.<sup>477</sup> We find this to be  
 4 an omission of a material fact necessary in order to make the statements of Mario Verdugo not  
 5 misleading.

6 On November 7, 2016, Mario Verdugo made, participated in or induced the sale of a VGC Note  
 7 to Ms. Barrios.<sup>478</sup> Mario Verdugo told Ms. Barrios that VGC used the investment money to purchase  
 8 things, that she would receive her principal and 20% interest in three months, and that her principal  
 9 was guaranteed.<sup>479</sup> Mario Verdugo did not tell Ms. Barrios about the \$6,000 Policy.<sup>480</sup> Mario Verdugo  
 10 failed to disclose that VGC was using investment funds to pay commissions to Mr. Caballero, Mr.  
 11 Medellin, and others, or to fund Glass Hobby and SGS. We find these to be omissions of a material  
 12 fact necessary in order to make the statements of Mario Verdugo not misleading.

13 On November 7, 2016, Mario Verdugo made, participated in or induced the sale of a VGC Note  
 14 to Mr. Barrios.<sup>481</sup> Mario Verdugo told Mr. Barrios that he would make 20% on his \$70,000 investment  
 15 in three months, that there was no risk and the investment was insured.<sup>482</sup> Mario Verdugo did not tell  
 16 Mr. Barrios that VGC had established the \$6,000 Policy.<sup>483</sup> We find this to be an omission of a material  
 17 fact necessary in order to make the statements of Mario Verdugo not misleading.

18 On December 23, 2016, Maria Verdugo made, participated in or induced the sale of a VGC  
 19 Note to Mr. Beltran.<sup>484</sup> Mario Verduga did not tell Mr. Beltran that VGC had established the \$6,000  
 20 Policy.<sup>485</sup> We find this to be an omission of a material fact necessary in order to make the statements  
 21 of Maria Verdugo not misleading.

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24 <sup>476</sup> Tr. at 337-341.

24 <sup>477</sup> Tr. at 347.

25 <sup>478</sup> Tr. at 303-310.

25 <sup>479</sup> Tr. at 307-309.

26 <sup>480</sup> Tr. at 310-311.

26 <sup>481</sup> Tr. at 259-263, 266-268, 289-290.

27 <sup>482</sup> Tr. at 259-263, 267, 289-290.

27 <sup>483</sup> Tr. at 276-277.

28 <sup>484</sup> Tr. at 528-530.

28 <sup>485</sup> Tr. at 529-530.

1 On January 11, 2017, Maria Verdugo made, participated in or induced the sale of a VGC Note  
 2 to Mr. Beltran.<sup>486</sup> Maria Verdugo did not tell Mr. Beltran that VGC was having issues paying back  
 3 earlier investors.<sup>487</sup> We find this to be an omission of a material fact necessary in order to make the  
 4 statements of Maria Verdugo not misleading.

5 On or about January 12, 2017, Maria Verdugo made, participated in or induced the sale of a  
 6 VGC Note to Ms. Lozada.<sup>488</sup> Maria Verdugo told Ms. Lozada that VGC was safe and profitable and  
 7 that her principal would be guaranteed.<sup>489</sup> Maria Verdugo did not tell Ms. Lozada that VGC had  
 8 established the \$6,000 Policy.<sup>490</sup> We find this to be an omission of a material fact necessary in order  
 9 to make the statements of Maria Verdugo not misleading.

10 On January 20, 2017, Maria Verdugo made, participated in or induced the sale of a rollover  
 11 VGC Note to Mr. Flores.<sup>491</sup> Maria Verdugo did not tell Mr. Flores that VGC was having issues  
 12 repaying investors.<sup>492</sup> We find this to be an omission of a material fact necessary in order to make the  
 13 statements of Maria Verdugo not misleading.

14 On or about January 20, 2017, Maria Verdugo made, participated in or induced the sale of two  
 15 rollover VGC Notes to Ms. Bonilla.<sup>493</sup> Maria Verdugo went over these VGC Notes with Ms. Bonilla  
 16 and said her investments were safe.<sup>494</sup> Maria Verdugo did not tell Ms. Bonilla that VGC was having  
 17 issues paying back earlier investors.<sup>495</sup> We find this to be an omission of a material fact necessary in  
 18 order to make the statements of Maria Verdugo not misleading.

19 As we have set forth, the evidence of record established one violation of A.R.S. § 44-1991(A)  
 20 by Mr. Caballero, three violations of A.R.S. § 44-1991(A) by Mario Verdugo, and five violations of  
 21 A.R.S. § 44-1991(A) by Maria Verdugo. We dismiss the remaining fraud violations alleged against  
 22 Mr. Caballero, Mario Verdugo, and Maria Verdugo.

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24 <sup>486</sup> Tr. at 531-533.

25 <sup>487</sup> Tr. at 531-532.

26 <sup>488</sup> Tr. at 582-587.

27 <sup>489</sup> Tr. at 579, 585.

28 <sup>490</sup> Tr. at 583-584.

<sup>491</sup> Tr. at 611-613.

<sup>492</sup> Tr. at 615.

<sup>493</sup> Tr. at 375-382.

<sup>494</sup> Tr. at 379, 381-382, 386.

<sup>495</sup> Tr. at 382.

1        E. Control Person Liability

2        Under A.R.S. § 44-1999(B), “Every person who, directly or indirectly, controls any person  
3 liable for a violation of section 44-1991 or 44-1992 is liable jointly and severally with and to the same  
4 extent as the controlled person to any person to whom the controlled person is liable unless the  
5 controlling person acted in good faith and did not directly or indirectly induce the act underlying the  
6 action.” For the purposes of A.R.S. § 44-1999(B), a person may include an individual, corporation or  
7 limited liability company.<sup>496</sup> In *E. Vanguard Forex, Ltd. v. Arizona Corp. Comm’n*, the Arizona Court  
8 of Appeals interpreted A.R.S. § 44-1999(B) “as imposing presumptive control liability on persons who  
9 have the *power* to directly or indirectly control the activities of those persons or entities liable as  
10 primary violators of [A.R.S.] §§ 44-1991 and -1992.”<sup>497</sup> Therefore, to establish control “the evidence  
11 need only show that the person targeted as a controlling person had the legal power, either individually  
12 or as part of a control group, to control the activities of the primary violator.”<sup>498</sup>

13        The Division contends that Isaias Verdugo is not only liable for his individual violations of  
14 A.R.S. § 44-1991, but he is jointly and severally liable as a control person for VGC’s antifraud  
15 violations. The Division argues that Isaias Verdugo is a control person for VGC because he is the sole  
16 manager of VGC,<sup>499</sup> a member-managed LLC, who performed all of VGC’s managerial functions,  
17 including: 1) locating and communicating with potential investors;<sup>500</sup> 2) exercising control over VGC’s  
18 business account;<sup>501</sup> 3) exercising control over VGC investors’ funds;<sup>502</sup> and 4) signing VGC’s Notes  
19 on behalf of VGC.<sup>503</sup>

20        Isaias Verdugo denies that he was a control person of VGC under A.R.S. § 44-1999(B). Isaias  
21 Verdugo contends that the Division failed to meet its burden of proof because the Division did not set  
22 forth evidence that he acted in bad faith or otherwise influenced others to commit fraud.

24        <sup>496</sup> A.R.S. § 44-1801(17).

25        <sup>497</sup> *E. Vanguard Forex, Ltd. v. Arizona Corp. Comm’n*, 206 Ariz. 399, 412, ¶ 42, 79 P.3d 86, 99 (App. 2003) (Emphasis in  
original).

26        <sup>498</sup> *Id.*

26        <sup>499</sup> Exhs. S-4, S-11 at 20.

27        <sup>500</sup> Exh. S-11 at 103-104.

27        <sup>501</sup> Exhs. S-11 at 135, 154-155, S-22.

27        <sup>502</sup> Exh. S-11 at 108, 135-136, S-22.

28        <sup>503</sup> Exhs. S-27, S-28, S-30 through S-79, S-84.

1 The Division acknowledges that A.R.S. § 44-1999(B) provides a defense to a controlling person  
2 who “acted in good faith and did not directly or indirectly induce the act underlying the action.”  
3 However, the Division notes that the Arizona Court of Appeals has held this is an “affirmative defense”  
4 and “[t]o prevail using this defense, the controlling person must demonstrate both good faith and lack  
5 of inducement.”<sup>504</sup> The Division further cites the Arizona Court of Appeals that “controlling persons  
6 must establish that they exercised due care by taking reasonable steps to maintain and enforce a  
7 reasonable and proper system of supervision and internal control[s].”<sup>505</sup>

8 We find that the record establishes Isaias Verdugo had the power to control VGC. Isaias  
9 Verdugo bore the burden to prove the affirmative defense of having acted in good faith and not directly  
10 or indirectly inducing the act underlying the action. Isaias Verdugo has failed to meet his burden of  
11 proof. We find that Isaias Verdugo is liable as a control person for the antifraud violations of VGC,  
12 pursuant to A.R.S. § 44-1999(B).

13 F. Remedies

14 The Division argues that the Commission has broad authority to order respondents to remedy  
15 violations of the Act. The Division contends that the Respondents should pay restitution and  
16 administrative penalties for their violations of the Act. The Division also seeks the entry of a cease  
17 and desist order against the Respondents for future violations.

18 1. Restitution

19 The Division asserts that from at least August 2014 through at least January 2017, the VGC  
20 investors collectively invested \$6,586,601.22 and have been paid back \$408,202.84, leaving  
21 \$6,178,398.38 of principal owed.<sup>506</sup> The Division requests that VGC and Isaias Verdugo be ordered  
22 to jointly and severally pay restitution in the amount of \$6,178,398.38. The Division further requests  
23 that the remaining Respondents be ordered to pay restitution jointly and severally with VGC and Isaias  
24  
25  
26

27 <sup>504</sup> *E. Vanguard Forex*, 206 Ariz. at 413, ¶ 48, 414, ¶ 49, 79 P.3d at 100, 101.

28 <sup>505</sup> *Id.* at 414, ¶ 50, 79 P.3d at 101.

<sup>506</sup> Exh. S-80.

Verdugo for the investment amounts of those VGC Notes for which they each acted as the salesman: \$227,185.79 for Mr. Caballero,<sup>507</sup> \$264,660 for Mario Verdugo,<sup>508</sup> and \$121,900 for Maria Verdugo.<sup>509</sup>

Isaias Verdugo contends that no restitution can be ordered because “[t]he Division has greatly overstated the amount of loss.”<sup>510</sup> Isaias Verdugo contends that Mr. Jones testified that investor Mr. Payan was paid interest and \$1,000 per month for four months, but this money was not reflected in the spreadsheet showing repayments to investors.<sup>511</sup> Isaias Verdugo further contends that the Division counted rollover VGC Notes as new investments even though no additional money would have been received from the investor.<sup>512</sup> Citing documents that were not part of the evidence of record, Isaias Verdugo further contends that bankruptcy court filings by the trustee for VGC demonstrate additional payments made to Mr. Payan and other investors that were not reflected in the Division’s restitution request.

In the Division Reply Re: Isaias Verdugo, the Division stands by its requested restitution amounts. The Division contends that the requested restitution reflects the totals from the financial documents relied upon by Mr. Beliak, whose spreadsheets were based upon substantiated investments and payments to investors and did not credit payments beyond the principal to any VGC investor.<sup>513</sup> The Division further notes that VGC’s spreadsheet, received by the Division, was deemed unreliable by Mr. Beliak who found it contained numerous errors.<sup>514</sup> The Division contends that payment is an affirmative defense and the burden to prove payments is on the Respondents.<sup>515</sup> The Division notes that A.A.C. R14-4-308(C)(4) entitles the Respondents to be credited for any payments that can be verified, but the Respondents must provide that verification.<sup>516</sup>

<sup>507</sup> Exh. S-81. The Division misstates the amount attributed to Mr. Caballero as \$227,185.77. Division Post-Hearing Brief at 37.

<sup>508</sup> Exh. S-82.

<sup>509</sup> Exh. S-83.

<sup>510</sup> Isaias Verdugo Post-Hearing Brief at 11.

<sup>511</sup> Tr. at 549; Exh. S-80.

<sup>512</sup> See, e.g., Exhs. S-78 at ACC025150, S-80 at line 388.

<sup>513</sup> Tr. at 474-475, 477-478, 480, 482, 485, 496; Exhs. S-80, S-81, S-82, S-83.

<sup>514</sup> Tr. at 497; Exh. S-12c.

<sup>515</sup> Citing *B & R Materials, Inc. v. U. S. Fid. & Guar. Co.*, 132 Ariz. 122, 124, 644 P.2d 276, 278 (App. 1982).

<sup>516</sup> A.A.C. R14-4-308(C)(4) provides:

The Commission may order the respondent to provide the following information to the Division:

- a. Names, addresses, and telephone numbers of all securities purchasers who had a right to receive restitution under the Commission’s order; amount and purchase dates of securities purchased by such purchasers; fair market value



1 The Commission has the authority to order restitution pursuant to A.R.S. § 44-2032.<sup>517</sup> The  
 2 evidence of record established that Mr. Payan invested \$34,138.39 in VGC Notes.<sup>518</sup> Based on the  
 3 testimony of the Division's investigator, Mr. Jones, we find that Mr. Payan was repaid \$4,000 on his  
 4 investment.<sup>519</sup> As this \$4,000 was not credited in the Division's restitution request, we adjust the  
 5 requested amount accordingly. The evidence of record does not establish any other payments made to  
 6 investors that have not already been credited by the Division.

7 VGC and Isaias Verdugo made, participated in or induced 755 sales of VGC Notes to  
 8 approximately 377 investors, totaling \$6,586,601.22. Accounting for the offsets of payments received  
 9 by VGC investors, including Mr. Payan, VGC and Isaias Verdugo are liable for restitution in the  
 10 amount of \$6,174,398.38. Accounting for the offsets of payments received by VGC investors, Mr.  
 11 Caballero, Mario Verdugo, and Maria Verdugo are liable for restitution for those sales of VGC Notes  
 12 for which they acted as salesmen: \$227,185.79 for Mr. Caballero, \$264,660 for Mario Verdugo, and  
 13 \$121,900 for Maria Verdugo.

## 14 2. Administrative Penalties

15 The Division asserts that the Commission may assess an administrative penalty of up to \$5,000  
 16 for each violation of the Act. The Division contends that VGC committed 755 violations of A.R.S. §  
 17 44-1841, 755 violations of A.R.S. § 44-1842, and 755 violations of A.R.S. § 44-1991. The Division  
 18 contends that Isaias Verdugo committed 755 violations of A.R.S. § 44-1841, 755 violations of A.R.S.  
 19 § 44-1842, and 755 violations of A.R.S. § 44-1991. The Division recommends that VGC and Isaias  
 20 Verdugo jointly and severally pay an administrative penalty of \$150,000. The Division contends that  
 21

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22 of any non-cash consideration received by respondent from each purchaser of such securities; and any payment of  
 principal, interest, or any other distribution on such security,

23 b. Verification of payment of principal and interest ordered to be paid to all such purchasers.

24 <sup>517</sup> A.R.S. § 44-2032 provides, in pertinent part:

25 If it appears to the commission, either on complaint or otherwise, that any person has engaged in, is engaging in  
 or is about to engage in any act, practice or transaction that constitutes a violation of this chapter, or any rule or  
 order of the commission under this chapter, the commission, in its discretion may:

26 1. Issue an order directing such person to cease and desist from engaging in the act, practice or transaction, or  
 doing any other act in furtherance of the act, practice or transaction, and to take appropriate affirmative action  
 within a reasonable period of time, as prescribed by the commission, to correct the conditions resulting from  
 27 the act, practice or transaction including, without limitation, a requirement to provide restitution as prescribed  
 by rules of the commission. ...

28 <sup>518</sup> Exh. S-80 at 11.

<sup>519</sup> Tr. at 549.

1 Mario Verdugo committed 33 violations of A.R.S. § 44-1841, 33 violations of A.R.S. § 44-1842, and  
2 32 violations of A.R.S. § 44-1991. The Division recommends that Mario Verdugo pay an  
3 administrative penalty of \$25,000. The Division contends that Maria Verdugo committed 10 violations  
4 of A.R.S. § 44-1841, 10 violations of A.R.S. § 44-1842, and 19 violations of A.R.S. § 44-1991. The  
5 Division recommends that Maria Verdugo pay an administrative penalty of \$20,000. The Division  
6 contends that Mr. Caballero committed 30 violations of A.R.S. § 44-1841, 30 violations of A.R.S. §  
7 44-1842, and 17 violations of A.R.S. § 44-1991. The Division recommends that Mr. Caballero pay an  
8 administrative penalty of \$20,000.

9 We have dismissed a number of the violations alleged against Mario Verdugo, Maria Verdugo,  
10 and Mr. Caballero. We consider the dismissal of these violations a mitigating factor in considering  
11 administrative penalties against these respondents. We note that, pursuant to A.R.S. § 44-1999, Isaias  
12 Verdugo may only be found jointly and severally liable for the portion of VGC's administrative  
13 penalties attributable to antifraud violations.

14 The record established that VGC made, participated in or induced 755 unlawful sales of  
15 securities, each in violation of A.R.S. §§ 44-1841, 44-1842, and 44-1991. We find appropriate to order  
16 an administrative penalty of \$150,000 against VGC, of which \$50,000 is apportioned to antifraud  
17 violations. The record established that Isaias Verdugo made, participated in or induced 755 unlawful  
18 sales of securities, each in violation of A.R.S. §§ 44-1841, 44-1842, and 44-1991. We find appropriate  
19 to order an administrative penalty of \$100,000 against Isaias Verdugo.

20 The record established that Mario Verdugo made, participated in or induced 29 unlawful sales  
21 of securities, each in violation of A.R.S. §§ 44-1841 and 44-1842. Mario Verdugo further committed  
22 three violations of A.R.S. § 44-1991. We find appropriate to order an administrative penalty of \$15,000  
23 against Mario Verdugo.

24 The record established that Maria Verdugo made, participated in or induced 10 unlawful sales  
25 of securities, each in violation of A.R.S. §§ 44-1841 and 44-1842. Maria Verdugo further committed  
26 five violations of A.R.S. § 44-1991. We find appropriate to order an administrative penalty of \$10,000  
27 against Maria Verdugo.  
28

The record established that Mr. Caballero made, participated in or induced 19 unlawful sales of securities, each in violation of A.R.S. §§ 44-1841 and 44-1842. Mr. Caballero further committed one violation of A.R.S. § 44-1991. We find appropriate to order an administrative penalty of \$10,000 against Mr. Caballero.

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

### **FINDINGS OF FACT**

1. Respondent VGC is a manager managed limited liability company located in Phoenix, Arizona and organized in Arizona in June 2006.<sup>520</sup> VGC has not been registered by the Commission as a securities salesman or dealer.<sup>521</sup>

2. Respondent Isaias Verdugo was the sole manager and statutory agent for VGC.<sup>522</sup> Isaias Verdugo has not been registered by the Commission as a securities salesman or dealer.<sup>523</sup> Isaias Verdugo has been an Arizona resident for all times relevant to this action.<sup>524</sup> Isaias Verdugo is the manager of Glass Hobby, a limited liability company organized in the state of Arizona in April 2016, and the owner of SGS.<sup>525</sup>

3. Respondent Maria Verdugo has been an Arizona resident for all times relevant to this action.<sup>526</sup> Maria Verdugo has not been registered by the Commission as a securities salesman or dealer.<sup>527</sup>

4. Respondent Mario Verdugo has been an Arizona resident for all times relevant to this action.<sup>528</sup> Mario Verdugo has not been registered by the Commission as a securities salesman or

<sup>520</sup> Exh. S-1.

<sup>521</sup> Exhs. S-3, S-10.

<sup>522</sup> Exh. S-1.

<sup>523</sup> Exh. S-4.

<sup>524</sup> Exh. S-11 at 7-8

<sup>525</sup> Exhs. S-2, S-11 at 20.

<sup>526</sup> Exh. S-15 at 7-8.

<sup>527</sup> Exh. S-6.

<sup>528</sup> Notice at ¶ 6; Answer of Mario Verdugo (May 20, 2019).

1 dealer.<sup>529</sup>

2 5. Respondent Filemon Caballero has been an Arizona resident for all times relevant to  
3 this action.<sup>530</sup> Mr. Caballero is a married man whose spouse resides in Mexico.<sup>531</sup> Mr. Caballero has  
4 not been registered by the Commission as a securities salesman or dealer.<sup>532</sup>

5 6. Created in 2006 by Isaias Verdugo, VGC purchased bulk quantities of home décor  
6 products to resell at a profit.<sup>533</sup> Isaias Verdugo stored merchandise in his garage, initially selling  
7 products at swap meets, on street corners, and to family members before selling merchandise on a VGC  
8 website.<sup>534</sup> Starting in 2009, VGC sold merchandise on Amazon from products stored with drop  
9 shipping companies that would ship the merchandise directly to the customer.<sup>535</sup>

10 7. In 2013, Isaias Verdugo leased warehouse space in Phoenix, Arizona.<sup>536</sup> VGC returned  
11 to purchasing home décor products in bulk, some of which VGC sent to Amazon Fulfillment Centers  
12 for shipping to customers, while other product was kept at the warehouse for drop shipping to customers  
13 who purchased items from other online retailers.<sup>537</sup>

14 8. Subsequently, Isaias Verdugo hired some of his family members to work for VGC: his  
15 brothers Jaime and Mario Verdugo; his sister Maria Verdugo; and his former brother-in-law, Maria  
16 Verdugo's ex-husband, Mr. Caballero.<sup>538</sup>

17 9. VGC had brisk sales and needed capital to purchase inventory to fulfill orders and  
18 quickly grow the company.<sup>539</sup> Rather than seek traditional financing, Isaias Verdugo sought to raise  
19 capital from investors, many coming from church congregations.<sup>540</sup>

20 10. Between August 2014 and at least January 2017, the Respondents offered and sold a  
21 total of 755 VGC Notes to approximately 377 investors, of which at least 337 investors were Arizona  
22

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23 <sup>529</sup> Exh. S-7.

<sup>530</sup> Exh. S-18 at 18-19.

24 <sup>531</sup> Exh. S-18 at 23.

<sup>532</sup> Exh. S-8.

25 <sup>533</sup> Exh. S-11 at 17-18, 34.

<sup>534</sup> Exh. S-11 at 18, 55.

26 <sup>535</sup> Exh. S-11 at 57-59.

<sup>536</sup> Exh. S-11 at 78-79.

27 <sup>537</sup> Exh. S-11 at 60-61, 69-70.

<sup>538</sup> Exhs. S-11 at 75, 81, 90, 158, S-13 at 188.

28 <sup>539</sup> Exhs. S-11 at 59, 102, 104, S-13 at 221-222.

<sup>540</sup> Exhs. S-13 at 221, S-15 at 130-131.

1 residents.<sup>541</sup> The VGC investors collectively invested \$6,586,601.22 in the VGC Notes.<sup>542</sup> The  
 2 Respondents represented to the VGC investors that VGC was raising capital to purchase inventory of  
 3 home décor products for the purpose of fulfilling online orders.<sup>543</sup>

4 11. The VGC investors were promised to be paid 10-20% interest, compounded monthly,  
 5 on the VGC Notes.<sup>544</sup> The Respondents represented to the VGC investors that the investments were  
 6 safe and they guaranteed the VGC investors that they would at least get their principal back.<sup>545</sup> The  
 7 Respondents represented to the VGC investors that they would be paid back from profits of VGC's  
 8 online sales proceeds.<sup>546</sup>

9 12. The majority of the VGC Notes were written in English and were substantially identical  
 10 except for identifying the VGC investor's name, principal investment amount, promised interest rate  
 11 and maturity date.<sup>547</sup> The VGC Notes included the following or substantially similar language:

- 12 • Parties: The undersigned is Isaias Verdugo on behalf of [VGC], the borrower ...
- 13 • Responsibility: Although more than one person may sign this agreement below,  
 14 each of the undersigned, understand that they are each as individuals responsible  
 15 and jointly and severally liable for paying back the full amount.
- 16 • Repayment: Borrower will repay in the following manner: Borrower will repay  
 17 the amount of this note in full (principal plus interest) on [specific date].
- 18 • Default: If for any reason borrower fails to make any payments on time,  
 19 borrower shall be in default. The lender can then demand immediate payment  
 20 of the entire remaining unpaid balance of the loan, without giving anyone further  
 21 notices.
- 22 • Principal Guarantee: [VGC] agrees to keep assets equal to or greater than the

23  
 24 <sup>541</sup> Exhs. S-12c, S-80, S-81, S-82, S-83; Tr. at 478-479.

<sup>542</sup> Exh. S-80; Tr. at 477.

25 <sup>543</sup> Exhs. S-11 at 94-95, 104, S-13 at 197-198, S-15 at 59-60, S-18 at 30, 32, 34, 166; Tr. at 123, 134, 225-226, 237, 257,  
 307, 325, 420, 430, 537; Medellin Consent Order at ¶ 28.

26 <sup>544</sup> Exhs. S-27, S-28, S-30 through S-79, S-84.

27 <sup>545</sup> Exhs. S-11 at 142, 150, S-13 at 195, S-15 at 39, 59-61, 112, S-18 at 41-42, S-27, S-28, S-30 through S-79, S-84; Tr. at  
 85, 111, 197, 236, 239, 257-258, 260-261, 267, 275-276, 308, 326-327, 330, 331, 334-335, 365-366, 391, 424, 439, 441,  
 445, 526, 538, 577, 585.

28 <sup>546</sup> Exhs. S-13 at 197-198, S-15 at 60; Tr. at 257, 325, 420, 430, 537.

<sup>547</sup> Exhs. S-11 at 155, 159-160, S-27, S-28, S-30 through S-79, S-84.

value of all combined investment loans. In the event of non-payment of this note[,] assets should be sold and proceeds collected should be used to pay the principal amount of this note. [VGC] must furnish a detailed statement of all assets upon written request within 14 business days of receiving such request.<sup>548</sup>

13. The Respondents primarily raised investment funds from the Hispanic Christian community in Arizona and surrounding states.<sup>549</sup> Many investors knew Isaias Verdugo from the Hispanic Christian church he had attended since he was a child.<sup>550</sup> Mr. Caballero was a former pastor at a local Hispanic Christian church and he was well known in the Hispanic Christian community.<sup>551</sup> Many VGC investors trusted the Respondents and were induced to invest in VGC notes because of the Respondents' church affiliations.<sup>552</sup>

14. Isaias Verdugo offered and sold VGC Notes to "about 200, maybe more" VGC investors.<sup>553</sup> Isaias Verdugo discussed the VGC investment opportunity and the terms of the VGC Notes with VGC investors.<sup>554</sup>

15. No restrictions were placed on potential investors in VGC Notes, regardless of financial status or investment experience.<sup>555</sup> Isaias Verdugo did not ask VGC investors about their financial status or investment experience.<sup>556</sup>

16. Mr. Caballero worked with VGC investors who primarily spoke Spanish, discussing the VGC investment opportunity with offerees and translating the VGC Notes from English to Spanish for them.<sup>557</sup> Mr. Caballero brought in new VGC investors to invest in inventory.<sup>558</sup> Mr. Caballero signed

<sup>548</sup> Exhs. S-27, S-28, S-30 through S-79, S-84. Some of the VGC Notes did not contain the Principal Guarantee clause. Exhs. S-27 at ACC008291, ACC008292, ACC008310-ACC008316, S-35, S-36, S-39 at ACC009171-ACC009174, ACC009182-ACC009184, S-56 at ACC018738, ACC018740, ACC018744, S-63, S-78 at ACC025145, ACC025147, ACC025149-ACC025151, S-79.

<sup>549</sup> Exhs. S-14a at 3, S-15 at 53-54, 130-131, S-18 at 39; Medellin Consent Order at ¶¶ 15-17, 19.

<sup>550</sup> Exh. S-11 at 121.

<sup>551</sup> Exhs. S-11 at 121, S-18 at 36, 39.

<sup>552</sup> Exhs. S-14a at 3, S-15 at 53-54, 130-131, S-18 at 39; Medellin Consent Order at ¶ 9; Tr. at 74-78, 80, 112-114, 122, 125, 129, 143, 146-147, 185-187, 218, 222-223, 227-228, 250, 284, 297, 408-409, 413-414, 442, 525, 536.

<sup>553</sup> Exh. S-11 at 103-104.

<sup>554</sup> *Id.*

<sup>555</sup> Exh. S-13 at 274-275.

<sup>556</sup> *Id.*

<sup>557</sup> Exhs. S-11 at 91-93, 102, S-18 at 34-35, 101-102, 110-111.

<sup>558</sup> Exhs. S-11 at 91-92, 102, 105, S-18 at 30, 166; Tr. at 236, 238, 607, 626, 635-636, 639.



1 at least 10 VGC Notes with Isaias Verdugo's permission.<sup>559</sup>

2 17. Between February 2016 and January 2017, Mr. Caballero made, participated in or  
3 induced the offer and sale of at least 19 VGC Notes to at least 8 VGC investors.<sup>560</sup> Mr. Caballero told  
4 VGC investors that "their principal will always be safe."<sup>561</sup> VGC investors signed VGC Notes in front  
5 of Mr. Caballero and gave Mr. Caballero their investment funds.<sup>562</sup>

6 18. Maria Verdugo worked for VGC from at least November 2016 through at least June  
7 2017 and acted as the office manager.<sup>563</sup> Maria Verdugo scheduled appointments with offerees and  
8 VGC investors, discussed the VGC investment opportunity with them, and told them about the VGC  
9 Note's terms, the use of investor funds for inventory to be sold for profit, and the guaranteed return of  
10 principal.<sup>564</sup> Maria Verdugo scheduled appointments with VGC investors when their VGC Notes had  
11 matured to discuss rolling over the VGC Notes.<sup>565</sup>

12 19. Between December 2016 and January 2017, Maria Verdugo made, participated in or  
13 induced the offer and sale of 10 VGC Notes to 6 VGC investors.<sup>566</sup> Maria Verdugo signed VGC Notes  
14 when Isaias Verdugo and Mario Verdugo were not available.<sup>567</sup>

15 20. At all times relevant, Mario Verdugo acted in the capacity of VGC's general manager  
16 and employee manager.<sup>568</sup> Since at least December 2016, Mario Verdugo was a co-signor, with Isaias  
17 Verdugo, on VGC's business account.<sup>569</sup> Mario Verdugo was authorized to sign VGC Notes on behalf  
18 of Isaias Verdugo.<sup>570</sup>

19 21. Between March 2016 and January 2017, Mario Verdugo made, participated in or  
20

21 <sup>559</sup> Exh. S-18 at 114-115; Tr. at 411, 633.

22 <sup>560</sup> Exh. S-81. Mr. Caballero stated in an Examination under Oath that he offered and sold VGC Notes to as many as 80  
investors. Exh. S-18 at 30, 34-35.

23 <sup>561</sup> Exh. S-18 at 41-42.

24 <sup>562</sup> Exh. S-18 at 110-111; Tr. at 238, 335, 411, 607.

25 <sup>563</sup> Exhs. S-13 at 188, S-15 at 11-12, 23; Tr. at 576.

26 <sup>564</sup> Exhs. S-13 at 188, S-15 at 39, 59-61; Tr. at 378-382, 525-529, 531-532, 576-577, 617-618, 646.

27 <sup>565</sup> Tr. at 342-344.

28 <sup>566</sup> Exhs. S-16a, S-33, S-38, S-41, S-45 at ACC009981, S-55, S-59, S-83; Tr. at 377-382, 485, 525-529, 531-532, 575-576,  
617, 646.

<sup>567</sup> Exhs. S-15 at 46, S-28, S-30, S-38, S-42, S-45 at ACC009981; Tr. at 646; Answer of Maria Verdugo at ¶ 3 (May 21,  
2019).

<sup>568</sup> Exhs. S-11 at 158, S-13 at 188, S-15 at 33.

<sup>569</sup> Exhs. S-11 at 108-109, S-21, S-22.

<sup>570</sup> Exhs. S-11 at 106, S-15 at 46.

1 induced the offer and sale of 29 VGC Notes to 10 VGC investors.<sup>571</sup> Mario Verdugo discussed with  
 2 VGC investors the VGC investment opportunity and the terms of the VGC Note, including the  
 3 guaranteed return of the principal investments.<sup>572</sup>

4 22. VGC paid commissions of up to 5% of the money invested by VGC investors to Mr.  
 5 Caballero and Hispanic Church pastors, including Teodoro Medellin, for having brought in and/or  
 6 offered and sold VGC Notes.<sup>573</sup>

7 23. From at least September 2015 through at least January 2017, VGC paid Mr. Caballero  
 8 at least \$28,730 in commissions from the investment funds of the relevant VGC investors.<sup>574</sup>

9 24. From at least May 2016 through at least January 2017, Mr. Medellin actively promoted  
 10 the VGC investment opportunity to his congregation and other pastors, and he received commissions  
 11 for bringing in investors to VGC.<sup>575</sup> Mr. Medellin represented to a group of pastors that VGC was an  
 12 online business which sold products through Amazon and it was raising capital to purchase  
 13 inventory.<sup>576</sup> Mr. Medellin also represented that VGC Notes paid high interest rates and that he and  
 14 others made a significant amount of money investing in VGC Notes.<sup>577</sup> Mr. Medellin's representations  
 15 about significant returns on VGC Notes induced many congregants in his church and other pastors to  
 16 invest in VGC.<sup>578</sup>

17 25. From at least May 2016 through January 2017, VGC paid Mr. Medellin at least \$18,000  
 18 in commissions from the investment funds of the relevant VGC investors.<sup>579</sup>

19 26. VGC investors were not informed that Mr. Caballero, Mr. Medellin, and others received  
 20 commissions from a portion of their investment funds.<sup>580</sup>

21 27. Isaias Verdugo deposited the majority of VGC investors' investment funds into VGC's

22 <sup>571</sup> Exhs. S-31, S-32, S-33, S-39, S-40, S-44, S-50, S-52, S-55, S-82; Tr. at 198-199, 259-262, 304-307, 339-341, 484, 608,  
 23 644, 646.

<sup>572</sup> Tr. at 257-261, 287-290, 304-308

24 <sup>573</sup> Exhs. S-11 at 91-92, 102, 105-108, 118-120, S-12d, S-13 at 228-229, 262-264, 266-267, S-14p at ACC004376,  
 ACC005366, S-15 at 54-59, S-18 at 29-30, 102, S-19b, S-20, S-81; Tr. at 626; Medellin Consent Order at ¶¶ 9, 18.

25 <sup>574</sup> Exhs. S-11 at 108, S-19b, S-20, S-81.

<sup>575</sup> Exhs. S-13 at 265-266, S-15 at 53-54; Medellin Consent Order at ¶ 15.

26 <sup>576</sup> Medellin Consent Order at ¶ 16; Tr. at 74-76, 122, 124, 185, 218, 220, 225-226, 250.

<sup>577</sup> Medellin Consent Order at ¶ 16; Tr. at 75, 77, 123-126, 143, 218-223, 225-226, 229.

27 <sup>578</sup> Medellin Consent Order at ¶¶ 15, 19, 20; Exhs. S-13 at 266, S-15 at 53-54; Tr. at 123-126, 143, 218-223.

<sup>579</sup> Medellin Consent Order at ¶ 21.

28 <sup>580</sup> Exhs. S-11 at 108, S-13 at 276, S-18 at 120-121, 166-167; Medellin Consent Order at ¶¶ 28, 30; Tr. at 79, 105, 115, 137,  
 150, 191, 264-265, 297, 534.

1 business account at Wells Fargo bank.<sup>581</sup> VGC's sales proceeds were also deposited into VGC's  
 2 business account and commingled with VGC investors' funds.<sup>582</sup> During the relevant time period,  
 3 between May 2016 until at least June 2016, Isaias Verdugo was the sole signer on VGC's business  
 4 account.<sup>583</sup>

5 28. Isaias Verdugo formed Glass Hobby in April 2016 for the purpose of purchasing SGS.<sup>584</sup>  
 6 From May 2016 through June 2016, Isaias Verdugo used funds from VGC's business account to loan  
 7 \$150,000 to Glass Hobby, which used that money to purchase SGS.<sup>585</sup> VGC's business account was  
 8 used as a "general fund" to operate VGC, Glass Hobby, and SGS.<sup>586</sup>

9 29. The VGC Notes did not authorize the use of VGC investors' funds to operate Isaias  
 10 Verdugo's other companies.<sup>587</sup> While some VGC investors were told that VGC "had just purchased  
 11 [SGS]," it was "potentially accurate" that at least 150 VGC investors were not told that their monies  
 12 could be used for the purchase of SGS and to manage the operations of Glass Hobby.<sup>588</sup>

13 30. VGC allowed and/or encouraged a significant number of VGC investors to roll over  
 14 their VGC Notes, with the same or similar terms, for several months or years past the original maturity  
 15 date of the notes.<sup>589</sup> Each time a VGC Note was rolled over, a new VGC Note was executed which  
 16 reflected the new maturity date and the increased amount due on the new maturity date.<sup>590</sup>

17 31. From at least October 2016 through at least January 2017, VGC and Isaias Verdugo  
 18 instituted and enforced an unwritten investment return policy that restricted the amount of money a  
 19 VGC investor could be paid on the investor's VGC Note to a limit of \$6,000 every two weeks, the  
 20 \$6,000 Policy, regardless of whether the investor was owed more or the investor did not want to roll  
 21 over the note.<sup>591</sup> Contrary to the terms of the VGC Notes, the \$6,000 Policy forced some VGC investors  
 22

23 <sup>581</sup> Exh. S-11 at 33, 135, 155.

24 <sup>582</sup> Exh. S-11 at 52-53, 135.

25 <sup>583</sup> Exhs. S-11 at 33, 108-109, S-21, S-22, S-23.

26 <sup>584</sup> Exhs. S-2, S-11 at 154.

27 <sup>585</sup> Exh. S-11 at 154-155; Tr. at 488-489.

28 <sup>586</sup> Exhs. S-11 at 52-53, 104, 135-136, 148-149, S-15 at 60.

<sup>587</sup> Exhs. S-11 at 136, 155-156.

<sup>588</sup> Exh. S-11 at 135-136, 157-158.

<sup>589</sup> Exhs. S-11 at 146, S-13 at 194-195, S-27, S-28, S-30 through S-79, S-84; Tr. at 95-96, 139-140, 253, 273, 339-345, 370, 372, 432-435, 437, 442, 447.

<sup>590</sup> Exhs. S-13 at 194-195, S-27, S-28, S-30 through S-79, S-84; Tr. at 95-96, 272-273, 339-345, 371-374, 432-442.

<sup>591</sup> Exh. S-13 at 184-187, 192, 194-197.

1 to roll over their notes every two weeks.<sup>592</sup> The Respondents failed to disclose the \$6,000 Policy to  
2 the relevant VGC investors prior to them investing.<sup>593</sup>

3 32. From December 2016 through January 2017, VGC actively encouraged VGC investors  
4 to roll over their VGC Notes and/or invest in new VGC Notes.<sup>594</sup> Mr. Caballero, Mr. Medellin, and  
5 Jaime Verdugo contacted multiple VGC investors to encourage them to purchase new VGC Notes,  
6 representing that VGC was giving a special 20% interest rate.<sup>595</sup>

7 33. From December 1, 2016, through January 26, 2017, the Respondents raised at least  
8 \$1,409,875 in new investment capital.<sup>596</sup> Many VGC investors whose VGC Notes came due were  
9 forced to roll over their VGC Notes as they did not get paid and/or were informed that they could only  
10 receive \$6,000 because of the new \$6,000 Policy.<sup>597</sup> Maria Verdugo, Jaime Verdugo, and/or Isaias  
11 Verdugo told numerous VGC investors that VGC ran out of checks or had insufficient funds to pay on  
12 the VGC Notes and suggested to these investors that they come back later.<sup>598</sup>

13 34. On or about January 13, 2017, one VGC investor met with Isaias Verdugo to roll over  
14 multiple VGC Notes.<sup>599</sup> Isaias Verdugo represented to this VGC investor that VGC could not continue  
15 to pay him interest on the older VGC Notes because his promised returns were significant, VGC was  
16 running out of money, and VGC could not afford to pay the returns.<sup>600</sup> Isaias Verdugo promised to pay  
17 the VGC investor \$1,000 per month to satisfy the older VGC Notes and three new VGC Notes were  
18 executed in the amounts of \$97,461.25, \$31,000, and \$6,419.22 which all paid 0% interest.<sup>601</sup> The  
19 VGC investor received four monthly payments of \$1,000 from January through April 2017, after which  
20 Isaias Verdugo stopped paying the investor.<sup>602</sup>

21 35. From at least January 13, 2017 through at least January 26, 2017, Respondents

22 <sup>592</sup> Exh. S-13 at 194-195.

23 <sup>593</sup> Exh. S-13 at 196-197, S-15 at 141-142; Medellin Consent Order at ¶ 29; Jaime Verdugo Order at ¶ 25; Tr. at 87-88, 91,  
97, 140-141, 276-277, 310-311, 384, 465-466, 530-543, 582-583, 593-594.

24 <sup>594</sup> Medellin Consent Order at ¶ 24; Jaime Verdugo Order at ¶ 26; Tr. at 268-269.

25 <sup>595</sup> Medellin Consent Order at ¶ 24; Jaime Verdugo Order at ¶ 26; Tr. at 450-453, 633-634.

26 <sup>596</sup> Exhs. S-80, S-82 through S-84; Tr. at 487.

27 <sup>597</sup> Exh. S-13 at 194-195; Tr. at 93-94, 153, 375-378, 600, 612-613, 623, 670.

28 <sup>598</sup> Medellin Consent Order at ¶ 25; Jaime Verdugo Order at ¶ 27; Tr. at 93, 151, 157-160, 193, 195, 197-198, 375-377,  
596-599, 610, 613, 638-639.

<sup>599</sup> Exh. S-78; Tr. at 546-547.

<sup>600</sup> Exh. S-78; Tr. at 547.

<sup>601</sup> Exh. S-78; Tr. at 548-551.

<sup>602</sup> Tr. at 549.

1 continued to offer and sell VGC Notes even though VGC failed to pay on prior notes.<sup>603</sup> During this  
 2 time period, the Respondents raised at least \$337,600 from at least 41 VGC investors.<sup>604</sup>

3 36. Most of the VGC investors who rolled over their VGC Notes for numerous cycles were  
 4 promised significant returns on their investments, but many actually received only partial or no returns  
 5 and were not given back their principal investment.<sup>605</sup> VGC had trouble paying back VGC investors  
 6 and approximately 150 were not returned their principal investments.<sup>606</sup>

7 37. VGC, Isaias Verdugo, Mario Verdugo, and Maria Verdugo failed to disclose to some of  
 8 the later VGC investors that prior VGC investors had not received any returns or their principal  
 9 investments.<sup>607</sup>

10 38. On or about January 27, 2017, Isaias Verdugo closed VGC's doors to the public without  
 11 notice to the VGC investors and even though approximately 150 VGC investors were owed promised  
 12 returns and their principal investments.<sup>608</sup>

13 39. Of the \$6,586,601.22 invested in VGC by the VGC investors, only \$412,202.84 has  
 14 been paid back, leaving \$6,174,398.38 of unpaid principal.<sup>609</sup>

15 40. These findings of fact are based upon the Discussion above, and those findings are also  
 16 incorporated herein.

### 17 **CONCLUSIONS OF LAW**

18 1. The Commission has jurisdiction of this matter pursuant to Article XV of the Arizona  
 19 Constitution and A.R.S. §§ 44-1801, *et. seq.*

20 2. The findings contained in the Discussion above are incorporated herein.

21 3. Within or from Arizona, Respondents VGC, Isaias Verdugo, Maria Verdugo, Mario  
 22 Verdugo, and Filemon Caballero made, participated in or induced the offer and sale of securities, within  
 23

24 <sup>603</sup> Exhs. S-11 at 144, S-13 at 285-296, S-14a through S-14o, S-80, S-82, S-83.

<sup>604</sup> Exhs. S-80, S-82 through S-84; Tr. at 487-488.

25 <sup>605</sup> Exhs. S-14A, S-27, S-28, S-30 through S-79, S-80, S-84; Tr. at 105, 159, 168-169, 174-175, 179, 197, 280-281, 313,  
 315, 350, 352, 387, 461-463, 535, 552, 584, 601, 609, 611-612, 614-615, 621, 640-647.

26 <sup>606</sup> Exhs. S-11 at 138-140, 144, 147, S-13 at 285-296, S-14a through S-14o, S-80.

27 <sup>607</sup> Exhs. S-11 at 144, 147, S-13 at 285-296, S-14a through S-14o, S-80; Tr. at 88, 91, 101, 137, 149, 190-191, 263-264, 276,  
 311, 346, 348, 382, 449-450, 454-455, 526, 529, 532, 539, 541, 543, 546, 583-584.

28 <sup>608</sup> Exhs. S-11 at 139, 144, 147, S-13 at 213, 285-286; S-14a through S-14o, S-80; Tr. at 277-279. 314, 350, 385, 462, 534,  
 552, 583-584, 601, 610.

<sup>609</sup> Exh. S-80; Tr. at 477-478.



1 the meaning of A.R.S. § 44-1801.

2 4. Respondents VGC, Isaias Verdugo, Maria Verdugo, Mario Verdugo, and Filemon  
3 Caballero failed to meet their burden of proof pursuant to A.R.S. § 44-2033 to establish that the  
4 securities offered and sold herein were exempt from regulation under the Securities Act.

5 5. Respondents VGC, Isaias Verdugo, Maria Verdugo, Mario Verdugo, and Filemon  
6 Caballero violated A.R.S. § 44-1841 by having made, participated in or induced the offer and sale of  
7 securities that were neither registered nor exempt from registration.

8 6. Respondents VGC, Isaias Verdugo, Maria Verdugo, Mario Verdugo, and Filemon  
9 Caballero violated A.R.S. § 44-1842 by having made, participated in or induced the offer and sale of  
10 securities while not being registered as dealers or salesmen.

11 7. Respondents VGC, Isaias Verdugo, Maria Verdugo, Mario Verdugo, and Filemon  
12 Caballero committed fraud by having made, participated in or induced the offer and sale of securities,  
13 in violation of A.R.S. § 44-1991, in the manner set forth hereinabove.

14 8. Respondent Isaias Verdugo directly or indirectly controlled VGC, within the meaning  
15 of A.R.S. § 44-1999, and he is jointly and severally liable with VGC, for violations of A.R.S. § 44-  
16 1991.

17 9. Respondents VGC's, Isaias Verdugo's, Maria Verdugo's, Mario Verdugo's, and  
18 Filemon Caballero's conduct is grounds for a cease and desist order pursuant to A.R.S. § 44-2032.

19 10. Respondents VGC's, Isaias Verdugo's, Maria Verdugo's, Mario Verdugo's, and  
20 Filemon Caballero's conduct is grounds for an order of restitution pursuant to A.R.S. § 44-2032 and  
21 A.A.C. R14-4-308.

22 11. Respondents VGC's, Isaias Verdugo's, Maria Verdugo's, Mario Verdugo's, and  
23 Filemon Caballero's conduct is grounds to order administrative penalties pursuant to A.R.S. § 44-2036.

24  
25 **ORDER**

26 IT IS THEREFORE ORDERED that pursuant to the authority granted to the Commission under  
27 A.R.S. § 44-2032, Respondents VGC, Isaias Verdugo, Maria Verdugo, Mario Verdugo, and Filemon  
28 Caballero shall cease and desist from their actions, as described above, in violation of A.R.S. §§ 44-



1 1841, 44-1842 and 44-1991.

2 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under  
3 A.R.S. § 44-2032, Respondents VGC and Isaias Verdugo, jointly and severally, shall make restitution  
4 in the amount of \$6,174,398.38, payable to the Arizona Corporation Commission within 90 days of the  
5 effective date of this Decision. Such restitution shall be made pursuant to A.A.C. R14-4-308 subject  
6 to legal setoffs by the Respondents and confirmed by the Director of Securities.

7 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under  
8 A.R.S. § 44-2032, Respondent Maria Verdugo shall make restitution, jointly and severally with  
9 Respondents VGC and Isaias Verdugo, in the amount of \$121,900, payable to the Arizona Corporation  
10 Commission within 90 days of the effective date of this Decision. Such restitution shall be made  
11 pursuant to A.A.C. R14-4-308 subject to legal setoffs by the Respondent and confirmed by the Director  
12 of Securities.

13 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under  
14 A.R.S. § 44-2032, Respondent Mario Verdugo shall make restitution, jointly and severally with  
15 Respondents VGC and Isaias Verdugo, in the amount of \$264,660, payable to the Arizona Corporation  
16 Commission within 90 days of the effective date of this Decision. Such restitution shall be made  
17 pursuant to A.A.C. R14-4-308 subject to legal setoffs by the Respondent and confirmed by the Director  
18 of Securities.

19 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under  
20 A.R.S. § 44-2032, Respondent Filemon Caballero shall make restitution, jointly and severally with  
21 Respondents VGC and Isaias Verdugo, in the amount of \$227,185.79, payable to the Arizona  
22 Corporation Commission within 90 days of the effective date of this Decision. Such restitution shall  
23 be made pursuant to A.A.C. R14-4-308 subject to legal setoffs by the Respondent and confirmed by  
24 the Director of Securities.

25 IT IS FURTHER ORDERED that all ordered restitution payments shall be deposited into an  
26 interest-bearing account(s), if appropriate, until distributions are made.

27 IT IS FURTHER ORDERED that the ordered restitution shall bear interest at the rate of the  
28 lesser of 10 percent *per annum*, or at a rate *per annum* that is equal to one percent plus the prime rate

1 as published by the Board of Governors of the Federal Reserve System of Statistical Release H.15, or  
2 any publication that may supersede it on the date that the judgment is entered.

3 IT IS FURTHER ORDERED that the Commission shall disburse the restitution funds on a *pro*  
4 *rata* basis to the investors shown on the records of the Commission. Any restitution funds that the  
5 Commission cannot disburse to an investor because the investor is deceased or an entity which invested  
6 is dissolved, shall be disbursed on a *pro rata* basis to the remaining investors shown on the records of  
7 the Commission. Any remaining funds that the Commission determines it is unable to or cannot  
8 feasibly disburse shall be transferred to the general fund of the State of Arizona.

9 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under  
10 A.R.S. § 44-2036, Respondent VGC shall pay to the State of Arizona administrative penalties in the  
11 amount of \$150,000, of which \$50,000 is for violations of A.R.S. § 44-1991, as a result of the conduct  
12 set forth in the Findings of Fact and Conclusions of Law.

13 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under  
14 A.R.S. § 44-2036, Respondent Isaias Verdugo shall pay to the State of Arizona administrative penalties  
15 in the amount of \$100,000 as a result of the conduct set forth in the Findings of Fact and Conclusions  
16 of Law. Respondent Isaias Verdugo shall also pay jointly and severally with VGC its administrative  
17 penalty of \$50,000 for violations of A.R.S. § 44-1991, pursuant to A.R.S. § 44-1999(B).

18 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under  
19 A.R.S. § 44-2036, Respondent Maria Verdugo shall pay to the State of Arizona administrative penalties  
20 in the amount of \$10,000 as a result of the conduct set forth in the Findings of Fact and Conclusions of  
21 Law.

22 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under  
23 A.R.S. § 44-2036, Respondent Mario Verdugo shall pay to the State of Arizona administrative penalties  
24 in the amount of \$15,000 as a result of the conduct set forth in the Findings of Fact and Conclusions of  
25 Law.

26 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under  
27 A.R.S. § 44-2036, Respondent Filemon Caballero shall pay to the State of Arizona administrative  
28 penalties in the amount of \$10,000 as a result of the conduct set forth in the Findings of Fact and

1 Conclusions of Law.

2 IT IS FURTHER ORDERED that all administrative penalties shall be payable by either  
3 cashier's check or money order payable to "the State of Arizona" and presented to the Arizona  
4 Corporation Commission for deposit in the general fund for the State of Arizona.

5 IT IS FURTHER ORDERED that the payment obligations for these administrative penalties  
6 shall be subordinate to the restitution obligations ordered herein and shall become immediately due and  
7 payable only after restitution payments have been paid in full or upon Respondents' default with respect  
8 to Respondents' restitution obligations.

9 IT IS FURTHER ORDERED that if Respondents fail to pay the administrative penalties  
10 ordered hereinabove, any outstanding balance plus interest, at the rate of the lesser of ten percent *per*  
11 *annum* or at a rate *per annum* that is equal to one percent plus the prime rate as published by the Board  
12 of Governors of the Federal Reserve System in Statistical Release H.15 or any publication that may  
13 supersede it on the date that the judgment is entered, may be deemed in default and shall be immediately  
14 due and payable, without further notice.

15 IT IS FURTHER ORDERED that if any of the Respondents fail to comply with this Order, any  
16 outstanding balance shall be in default and shall be immediately due and payable without notice or  
17 demand. The acceptance of any partial or late payment by the Commission is not a waiver of default  
18 by the Commission.

19 IT IS FURTHER ORDERED that default shall render Respondents liable to the Commission  
20 for its cost of collection and interest at the maximum legal rate.

21 IT IS FURTHER ORDERED that if any of the Respondents fail to comply with this Order, the  
22 Commission may bring further legal proceedings against the Respondent(s) including application to  
23 the Superior Court for an order of contempt.

24 IT IS FURTHER ORDERED that if any of the Respondents fail to comply with this Order, the  
25 Commission may bring further legal proceedings against the Respondent(s) including application to  
26 the Superior Court for an order of contempt.

27 IT IS FURTHER ORDERED that pursuant to A.R.S. § 44-1974, upon application the  
28 Commission may grant a rehearing of this Order. The application must be received by the Commission

at its offices within twenty (20) calendar days after entry of this Order. Unless otherwise ordered, filing an application for rehearing does not stay this Order. If the Commission does not grant a rehearing within twenty (20) calendar days after filing the application, the application is considered to be denied. No additional notice will be given of such denial.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

  
CHAIRWOMAN MARQUEZ PETERSON

  
COMMISSIONER KENNEDY

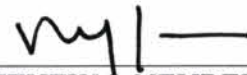
  
COMMISSIONER OLSON

  
COMMISSIONER TOVAR

  
COMMISSIONER O'CONNOR



IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 12 day of February 2021.

  
MATTHEW J. NEUBERT  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_  
MP/(gb)

SERVICE LIST FOR:

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GIFT COMPANY, ISAIAS M. VERDUGO, JAIME A.  
VERDUGO, MARIA G. VERDUGO, MARIO C.  
VERDUGO, JR., TEODORO M. MEDELLIN and  
SILVIA MEDELLIN, and FILEMON G. CABALLERO

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**Consented to Service by Email**